This document constitutes a prospectus for the purposes of Article 3 of European Union ("EU") Directive 2003/71/EC (the "Prospectus Directive") (the "Prospectus") relating to Phoenix Group Holdings (the "Company") and its subsidiaries (together with the Company, the "Group") and has been prepared in accordance with Chapter 5.1 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) and the rules promulgated thereunder (the "DFSA"). The Prospectus will be made available to the public in accordance with the Prospectus Rules and the relevant rules under the DFSA. This Prospectus has been approved by the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*) (the "AFM").

The Ordinary Shares (ISIN: KYG7091M1096) are admitted to the Official List (by way of a standard listing under Chapter 14 of the Listing Rules) to trading on the London Stock Exchange's main market for listed securities and the Ordinary Shares and the Ordinary Warrants (ISIN: KYG7091M1179) are admitted to listing and trading on Euronext Amsterdam by NYSE Euronext ("Euronext Amsterdam"). Application has been made to the UK Listing Authority for the transfer of the Ordinary Shares to a Premium Listing under Chapter 6 of the Listing Rules (the "Premium Listing"). Application has also been made to the UK Listing Authority for the New Shares and the Ordinary Warrants to be admitted to the Official List of the Financial Services Authority and to the London Stock Exchange for the New Shares and Ordinary Warrants to be admitted to trading on the main market of the London Stock Exchange and to Euronext Amsterdam for the New Shares to be admitted to listing and trading on Euronext Amsterdam (together with the Premium Listing, "Admission"). Subject to the Amended Contingent Rights Agreements being entered by all parties thereto, the Resolutions being passed at the AGM, the resolution being passed at the Class Meeting and the Fourth Articles of Association being adopted (for more information, see Part IV: "Information on the Group—Section A: The Company—Capital Structure"), it is expected that Admission will become effective and that dealings in the New Shares and Ordinary Warrants will commence on 5 July 2010. **No application is currently intended to be made for the Ordinary Shares or the Ordinary Warrants to be admitted to listing or dealt with on any other exchange.**

See Part II: "Risk Factors" for a discussion of certain risks and other factors that should be considered prior to any investment in the Ordinary Shares or Ordinary Warrants.

Phoenix Group Holdings

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

Admission of 84,432,123 New Shares to the Official List and to trading on the London Stock Exchange and to listing and trading on Euronext Amsterdam(1)

Admission of 8,169,868 Ordinary Warrants to the Official List and to trading on the London Stock Exchange(1)

Application to the UK Listing Authority for a transfer of Ordinary Shares to a Premium Listing (under Chapter 6 of the Listing Rules)(1)

Joint Sponsors

Deutsche Bank **J.P. Morgan Cazenove**

ORDINARY SHARE CAPITAL IMMEDIATELY FOLLOWING ADMISSION(1)

Authorised			**Issued and fully paid**	
Number	**Nominal Value**		**Number**	**Nominal Value**
410,000,000	**€41,000**	**Shares of €0.0001 each**	**164,862,855**	**€16,486**

(1) Assuming that the Amended Contingent Rights Agreements are entered into by all parties thereto, the Resolutions are passed at the AGM, the resolution is passed at the Class Meeting and the Fourth Articles of Association are adopted. For more information, see Part IV: "Information on the Group—Section A: The Company—Capital Structure".

This document does not constitute an offer of, or the solicitation of an offer to subscribe for or buy, any of the Ordinary Shares or Ordinary Warrants or any other security to any person in any jurisdiction.

Each of the Joint Sponsors is acting exclusively for the Company and no one else in connection with the Premium Listing and will not regard any other person (whether or not a recipient of this document) as a client in relation to the Premium Listing and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients nor for the giving of advice in relation to the Premium Listing or any transaction or arrangement referred to in this document.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Joint Sponsors by FSMA or the regulatory regime established thereunder, each of the Joint Sponsors accepts no responsibility whatsoever for the contents of this document, including its accuracy, completeness or verification or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Ordinary Shares, the Ordinary Warrants or the Premium Listing. The Joint Sponsors accordingly disclaim all and any liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise have in respect of this document or any such statement.

Presentation of information

For information on the presentation of financial and other information in this document, see Part III: "Administration, Advisers and Presentation of Information".

Notice to Investors

This Prospectus has not been, and is not required to be, filed with any governmental or other authority in the Cayman Islands. No governmental or other authority in the Cayman Islands has approved this Prospectus, nor passed upon or endorsed the merits of the Premium Listing or the accuracy or adequacy of this Prospectus. The activities of the Company will not be regulated or otherwise overseen by any Cayman Islands authority. Any representation to the contrary is unlawful. No offering of the Ordinary Shares or the Ordinary Warrants is being made by this Prospectus to the public in the Cayman Islands.

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PART I: SUMMARY

This summary must be read as an introduction to this Prospectus only. Any decision to invest in the Ordinary Shares or the Ordinary Warrants should be based on consideration of this Prospectus as a whole by the investor and not just this summary. Under the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area ("EEA"), civil liability attaches to those persons responsible for this summary (including any translations of this summary) but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the EEA states have to bear the costs of translating this Prospectus before legal proceedings can be initiated.

1 BUSINESS OVERVIEW

The Group is a closed life assurance fund consolidator that specialises in the management and acquisition of closed life and pension funds and operates primarily in the United Kingdom ("UK"). Measured by total assets, the Group is the largest UK consolidator of closed life assurance funds. The Group does not write any new policies (other than increments to existing policies and annuities for current policyholders when their policies mature) and is therefore focused on the efficient "run off" of the Group's policies, seeking to maximise economies of scale and generating capital efficiencies through internal fund mergers and other operational improvements. The Group has two core business segments: life assurance (including its management services operations) – referred to as "Phoenix Life"; and asset management – referred to as "Ignis Asset Management".

The Group has eight operating life companies which hold policyholder assets. These companies have a diversified mix of long-term business, with policyholder liabilities split approximately 53 per cent. with profit, 28 per cent. non profit and 20 per cent. unit linked as at 31 December 2009. The Group's two principal management service companies, Pearl Group Services Limited ("PGS") and Pearl Group Management Services Limited ("PGMS"), aim to provide all administrative services required by the Group's life companies (or manage such provision through outsourcing arrangements), including policy administration, information technology, finance and facility management services. It is anticipated that PGS and PGMS will be further integrated in due course.

Ignis Asset Management is the Group's asset management business providing asset management and asset and liability management services to the Group's life companies as well as a third party client base of retail and institutional investors. Ignis Asset Management had £66.9 billion of assets under management as at 31 December 2009, including £62.8 billion of the Group's and the Phoenix Life Companies' assets (including £2.7 billion of Pearl Group Staff Pension Scheme and PGL Pension Scheme assets) and £4.1 billion of third party assets.

As at 31 December 2009, the Group had Market Consistent Embedded Value ("MCEV") of £1,827 million, total assets under management of approximately £66.9 billion and approximately 6.5 million policyholders.

2 KEY STRENGTHS

The directors of the Company (the "Directors") believe that the Group's key strengths are as follows:

- As a fund closed to new business, the Group has high visibility on its cash flows over the long-term due to the well seasoned nature of the book.
- The Group is the largest closed fund consolidator in the UK, with a simple and scalable business model, allowing it to benefit from economies of scale, diversification benefits and the ability to save costs both internally and through outsourcing arrangements.
- There is significant opportunity to grow embedded value and cash flows through further operational and financial improvements within its existing operations.
- The Group's asset and liability management capability helps to protect and enhance policyholder and shareholder returns.
- The dedicated focus of Ignis Asset Management offers the Group improved investment management performance on the Group's life company assets as well as generating fees from its retail and institutional asset management operations.

3 GOALS AND STRATEGIES

The Group's mission is to improve returns for policyholders and deliver value for shareholders. The Group intends to achieve this by realising its vision to be recognised as "the industry solution" for the safe, innovative and profitable decommissioning of closed life funds in the UK.

The Group's goals are to:

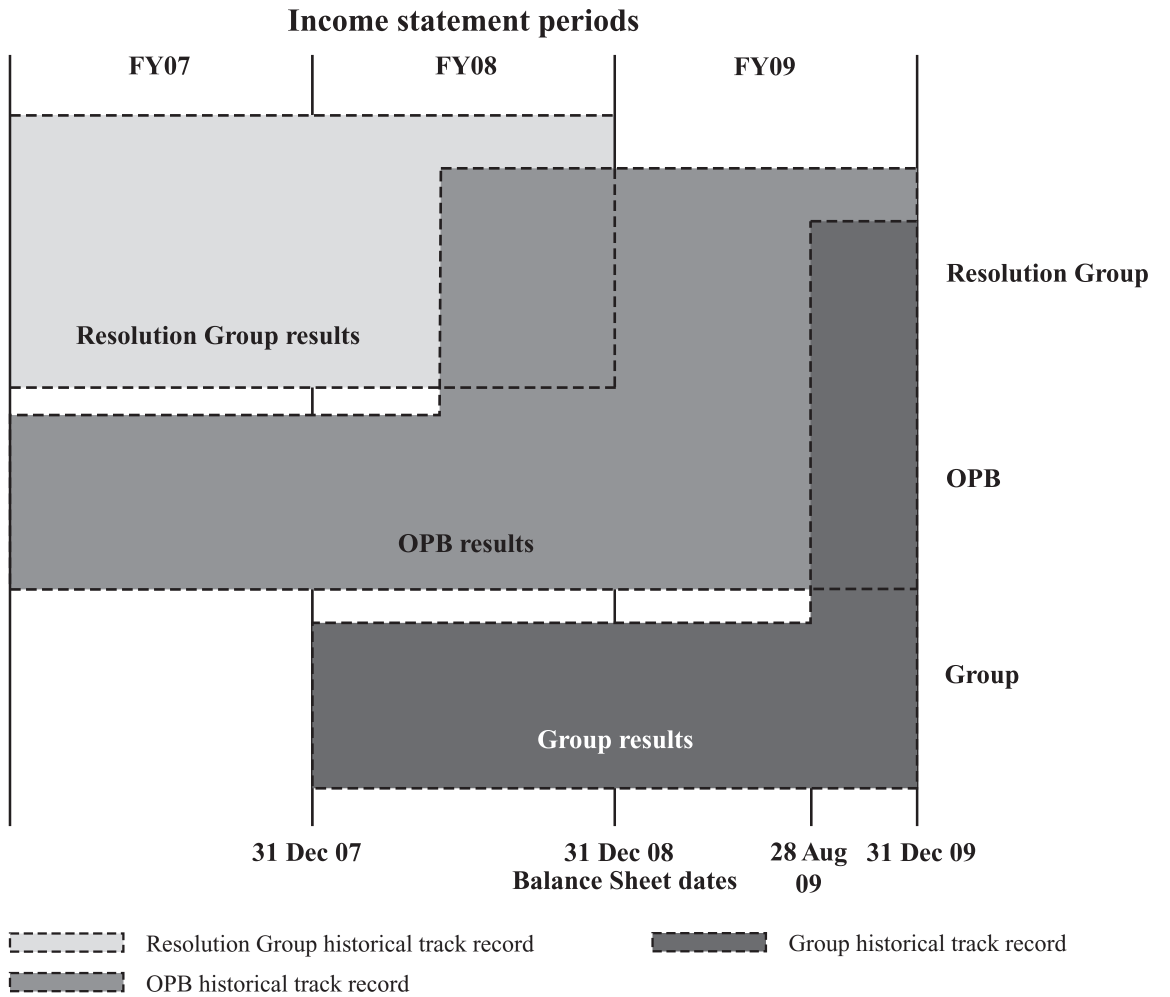
- Maximise business performance and value
- Improve customer outcomes
- Sustain a robust and scalable business model
- Be a place where people want to work
- Build an industry-wide reputation
- Pursue value adding acquisitions

4 ADMISSION

Application has been made to the UK Listing Authority for the transfer of the Ordinary Shares to a Premium Listing under Chapter 6 of the Listing Rules. Application has also been made to the UK Listing Authority for the New Shares and the Ordinary Warrants to be admitted to the Official List of the Financial Services Authority, to the London Stock Exchange for the New Shares and Ordinary Warrants to be admitted to trading on the London Stock Exchange and to Euronext Amsterdam for the New Shares to be admitted to listing and trading on Euronext Amsterdam (together, "Admission"). Subject to the Amended Contingent Rights Agreements being entered into by all parties thereto, the Resolutions being passed at the AGM, the resolution being passed at the Class Meeting and the Fourth Articles of Association being adopted (as these terms are defined in Part XII: "Definitions and Glossary"), it is expected that Admission will become effective and that dealings in the New Shares and Ordinary Warrants will commence on 5 July 2010. This Prospectus has been prepared in connection with Admission only. In the event that the Resolutions are not passed at the AGM, the resolution is not passed at the Class Meeting, the Amended Contingent Rights Agreements are not entered into or the Fourth Articles of Association are not adopted, the Premium Listing and Admission will not occur, although certain Class B Shares may be re-designated into an equivalent number of Ordinary Shares at the option of the holders and the Company would intend to make an application for such Ordinary Shares to be admitted to (i) a standard listing on the Official List and trading on the main market of the London Stock Exchange and (ii) listing and trading on Euronext Amsterdam, and to apply for the Ordinary Warrants to be admitted to a standard listing on the Official List and trading on the main market of the London Stock Exchange, in each case following publication of a new prospectus in respect thereof.

5 SUMMARY FINANCIAL INFORMATION

The chart below sets out the results that are included within each set of historical financial information included in this document through the period 1 January 2007 to 31 December 2009, as well as areas of overlap. The income statement periods and balance sheet dates in the chart below reflect those included within the three sets of historical financial information included in this document: (i) Original Pearl Business (''OPB''), (ii) Resolution plc (''Resolution'') and its subsidiaries (the ''Resolution Group'') and (iii) the Group.



The tables below set out summary historical financial information on the Group, OPB and the Resolution Group, which has been extracted, without material adjustment, from the financial information included in the Annex to this document.

5.1 Selected financial information for the Group

The table below sets forth the Group's consolidated results of operations for the year ended 31 December 2009 and the period from 2 January to 31 December 2008.

	Year ended 31 December 2009[1]	Restated period ended 31 December 2008[2]
	£ million	*£ million*
Gross premiums written	545	—
Less: Premiums ceded to reinsurers	(31)	—
Net premiums written	**514**	**—**
Fees	101	—
Net investment income	1,032	33
Total revenue, net of reinsurance payable	**1,647**	**33**
Other operating income	67	—
Net income	**1,714**	33
Net policyholder claims and benefits incurred	(834)	**—**
Total operating expenses	**(1,536)**	**(2)**
Profit before finance costs and tax	**178**	**31**
Finance costs	(87)	—
Profit for the year before tax	**91**	**31**
Tax attributable to policyholders' returns	60	—
Profit before the tax attributable to owners	**151**	**31**
Tax attributable to owners	(16)	—
Profit for the year attributable to owners	**135**	**31**
Attributable to:		
Owners of the parent	95	31
Non-controlling interests	40	—
	135	31

(1) The consolidated income statement for the year ended 31 December 2009 incorporates the results of OPB for the four-month post-acquisition period only.

(2) The Group's consolidated income statement for the period from 2 January to 31 December 2008 was restated, following a review of certain agreements relating to the Company's initial public offering, to classify the Founders' warrants as financial liabilities instead of equity instruments. In addition, the shares issued by the Company in its initial public offering that were originally classified by the Company as a financial liability, "ordinary shares subject to possible redemption", were reclassified as equity as it was considered that the obligation to give the holders of these Shares cash in exchange for their Shares, had they declined to be involved in an acquisition proposed by the Company, could have been avoided.

The table below sets forth the Group's statement of consolidated financial position as at 31 December 2009 and 31 December 2008.

	2009	Restated 2008[(1)]
	£ million	*£ million*
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	—	—
Share premium	859	401
Other reserves	257	6
Shares held by employee trust	(4)	—
Foreign currency translation reserve	93	133
Retained earnings	207	33
Total equity attributable to owners of the parent	**1,412**	**573**
Non-controlling interests	728	—
Total equity	**2,140**	**573**
Liabilities		
Pension scheme deficit	125	—
Insurance contract liabilities	51,012	—
Financial liabilities	21,076	11
Provisions	101	—
Deferred tax	776	—
Reinsurance payables	17	—
Payables related to direct insurance contracts	759	—
Current tax	103	—
Accruals and deferred income	177	9
Other payables	650	—
Total liabilities	**74,796**	**20**
Total equity and liabilities	**76,936**	**593**

	2009	Restated 2008
	£ million	*£ million*
ASSETS		
Intangible assets	2,713	—
Property, plant and equipment	34	—
Investment property	1,915	—
Financial assets	61,524	—
Deferred tax assets	81	—
Insurance assets	3,141	—
Current tax	44	—
Prepayments and accrued income	622	—
Other receivables	781	—
Cash and cash equivalents	6,081	2
Amounts in trust	—	591
Total assets	**76,936**	**593**

(1) The Group's consolidated financial position as at 31 December 2008 was restated, following a review of certain agreements relating to the Company's initial public offering, to classify the Founders' warrants as financial liabilities instead of equity instruments. In addition, the shares issued by the Company in its initial public offering that were originally classified by the Company as a financial liability, ''ordinary shares subject to possible redemption'', were reclassified as equity as it was considered that the obligation to give the holders of these Shares cash in exchange for their Shares, had they declined to be involved in an acquisition proposed by the Company, could have been avoided. All share premium arising on the issue of share capital in 2008 (net of share issue costs) was reclassified from other reserves to share premium.

5.2 Selected financial information for OPB

The table below sets forth OPB's combined results of operations for the years ended 31 December 2009, 2008 and 2007.

	Year ended 31 December		
	2009	**2008[(1)]**	**2007**
	£ million	*£ million*	*£ million*
Gross premiums written	1,666	1,330	491
Less: premiums ceded to reinsurers	(71)	(76)	(4)
Net premiums written	**1,595**	**1,254**	**487**
Fees	200	180	57
Net investment income	4,555	(2,668)	1,120
Total revenue, net of reinsurance payable	**6,350**	**(1,234)**	**1,664**
Other operating income	132	74	8
Net income	**6,482**	**(1,160)**	**1,672**
Net policyholder claims and benefits incurred	(3,679)	(136)	(1,159)
Change in investment contract liabilities	(1,238)	1,747	(285)
Impairment of acquired in-force business	—	(408)	—
Total administrative expenses[(2)]	(738)	(722)	(137)
Net (income)/expense attributable to unit holders	(29)	140	—
Other operating expenses[(3)]	(123)	(150)	(13)
Profit / (loss) before finance costs and tax	**675**	**(689)**	**78**
Finance costs	(499)	(683)	(244)
Profit / (loss) for the year before tax	**176**	**(1,372)**	**(166)**
Owners' tax	48	333	(42)
Policyholder tax	—	106	71
Tax credit	48	439	29
Profit / (loss) for the year	**224**	**(933)**	**(137)**
Attributable to:			
Owners of the parent	177	(920)	(137)
Non-controlling interests	47	(13)	—
	224	**(933)**	**(137)**

(1) OPB's combined results of operations for the year ended 31 December 2008 consolidate the Resolution Group's (as defined below) results of operations (excluding the On-Sold Resolution Assets) from 1 May 2008.

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

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

The table below sets forth OPB's statement of combined financial position as at 31 December 2009, 31 December 2008 and 31 December 2007.

	2009	2008	2007
	£ million	*£ million*	*£ million*
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	265	193	51
Capital contribution	436	—	—
Foreign currency translation reserve	10	17	—
Available for sale reserve	—	—	(2)
Retained earnings	(549)	(570)	520
Total equity attributable to owners of the parent	**162**	**(360)**	**569**
Non-controlling interests	728	652	—
Total equity	**890**	**292**	**569**
Liabilities			
Pension scheme deficit	125	141	—
Insurance contract liabilities	51,012	53,200	19,269
Financial liabilities	21,659	23,809	9,161
Provisions	101	139	76
Deferred tax	464	602	58
Reinsurance payables	17	22	—
Payables related to direct insurance contracts	759	731	165
Current tax	103	126	78
Accruals and deferred income	176	233	52
Other payables	760	733	1,264
Total liabilities	**75,176**	**79,736**	**30,123**
Total equity and liabilities	**76,066**	**80,028**	**30,692**

	2009	2008	2007
	£ million	*£ million*	*£ million*
ASSETS			
Pension scheme surplus	—	135	81
Intangible assets	1,807	1,917	76
Property, plant and equipment	34	35	4
Investment property	1,915	1,986	460
Financial assets	61,552	63,942	27,617
Deferred tax assets	81	110	1
Insurance assets	3,141	3,057	39
Current tax	44	135	—
Deferred acquisition costs	13	17	21
Prepayments and accrued income	622	703	274
Other receivables	781	416	96
Cash and cash equivalents	6,076	7,575	2,023
Total assets	**76,066**	**80,028**	**30,692**

5.3 Selected financial information for the Resolution Group

The table below sets forth the Resolution Group's consolidated results of operations for the years ended 31 December 2008 and 31 December 2007.

	Year ended 31 December	
	2008[1]	**2007**
	£ million	*£ million*
Gross premiums written	1,677	2,104
Less: premiums ceded to reinsurers	(186)	(330)
Net premiums written	**1,491**	**1,774**
Fees and commissions	171	150
Net investment income	(2,174)	2,365
Total revenue, net of reinsurance payable	**(512)**	**4,289**
Other operating income	71	9
Net income	**(441)**	**4,298**
Net policyholder claims and benefits incurred	(107)	(2,663)
Change in investment contract liabilities	1,373	(384)
Acquisition costs	(82)	(112)
Amortisation of acquired in-force business	(168)	(228)
Administrative expenses	(648)	(594)
Net expense / (income) attributable to unit holders	147	(99)
Other operating expenses	(29)	(89)
Profit before finance costs	**45**	**129**
Finance costs	(127)	(125)
(Loss) / profit for the year before other items	**(82)**	**4**
Gain on disposal of business to Royal London	280	—
Loss on disposal of subsidiaries	(372)	—
(Loss) / profit for the year before taxes	**(174)**	**4**
Tax (charge) / credit	(6)	132
(Loss) / profit for the year attributable to owners	**(180)**	**136**
Attributable to:		
Owners of the parent		
Ordinary shareholders	(180)	116
Perpetual reset capital securities	33	33
	(147)	**149**
Non-controlling interests	(33)	(13)
	(180)	**136**

(1) The results for the year ended 31 December 2008 have been classified as discontinued operations as all subsidiary operations were sold during the year. The continuing results of the parent entity are not material in the context of the total results.

The table below sets forth the Resolution Group's consolidated financial position as at 31 December 2008 and 31 December 2007.

	2008	2007
	£ million	*£ million*
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	34	34
Share premium	1,541	1,537
Perpetual reset capital securities	497	497
Share option reserve	—	6
Foreign currency translation reserve	—	7
Merger reserve	—	1,043
Retained earnings	1,274	1,283
Total equity attributable to owners of the parent	**3,346**	**4,407**
Non-controlling interests	—	192
Total equity	**3,346**	**4,599**
Liabilities		
Insurance contract liabilities	—	43,847
Financial liabilities	72	10,440
Provisions	—	69
Deferred tax	6	857
Reinsurance payables	—	67
Payables related to direct insurance contracts	—	431
Deferred income	—	68
Current tax	7	130
Accruals	—	145
Trade and other payables	4	501
Total liabilities	**89**	**56,555**
Total equity and liabilities	**3,435**	**61,154**

	2008	2007
	£ million	*£ million*
ASSETS		
Pension scheme surplus	50	20
Loans to parent and group undertakings	3,186	—
Intangible assets	—	2,215
Property, plant and equipment	—	39
Investment property	—	2,410
Financial assets	71	46,958
Insurance assets	—	3,370
Current tax	—	157
Prepayments	—	524
Amounts owed by group undertakings	125	—
Trade and other receivables	3	444
Cash and cash equivalents	—	5,005
Asset held for sale	—	12
Total assets	**3,435**	**61,154**

6 RISK FACTORS

Any investment in the Ordinary Shares and Ordinary Warrants is subject to a number of risks which are described in more detail in the Risk Factors section, but are summarised below:

6.1 Risks related to the Group

- In times of extreme or prolonged market turbulence, the Group's life companies may not have sufficient liquid assets to meet their payment obligations and this could have an adverse effect on them and the Group.
- As a holding company, the Company is dependent upon its subsidiaries to cover operating expenses and dividend payments. There are certain restrictions under the Group's financing arrangements which relate to its subsidiaries.
- The Group may have to retain more regulatory capital as a result of fluctuations in investment markets or stricter regulatory capital requirements imposed by the FSA. The FSA is able to restrict the payment of cash from the Group's subsidiaries.
- Defaults by trading counterparties and in relation to investments may adversely affect the Group.
- Changes in actuarial assumptions driven by experience and estimates may lead to changes in the level of capital required to be maintained.
- The Group could be adversely affected by the level of its indebtedness and its financing structure.
- Competition, regulatory restrictions and an inability to raise acquisition financing may make it difficult for the Group to grow by acquiring additional closed life fund companies and portfolios.
- Future acquisitions and disposals could have an adverse effect on the Group.
- The Group's business is subject to risks arising from economic conditions in the UK and other markets in which it operates or in which its and its policyholders' investments are invested.
- Substantial declines in equity markets, debt markets or property prices, or significant movements in swap yields relative to gilt yields, could have an adverse effect on the Group.
- The Group may be adversely affected by changes in interest rates.
- If the legislation or regulation to which the Group is subject in relation to group capital is amended or interpreted and applied in a new way, the Group may have to retain more capital or, in the longer term, may not be able to meet its group capital requirements.
- The Group faces exposure to currency risks.
- If the Group's businesses do not perform in accordance with expectations, it may be required to recognise an impairment of the Group's goodwill or its present value of acquired in-force assets or to establish a valuation allowance against deferred income tax assets or it may be unable to use tax relief to offset profits, any of which could have an adverse effect on the Group.
- The Group's valuations of many of its financial instruments include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations.
- The Group needs to reduce the expenses of managing long-term business in line with the run-off profile of its funds. The inability to adjust these costs could have an adverse effect on the Group.
- Increases in liabilities relating to product guarantees may adversely affect the Group.
- The Group may be adversely affected by third party reinsurers' unwillingness or inability to meet their obligations under reinsurance contracts, or potential variations and reductions in the nature and scope of cover through schemes of arrangement. In addition, the unavailability, adverse pricing and/or inadequacy of reinsurance arrangements may adversely affect the Group.
- The Group's ability to raise debt and equity financing in the future and its dealings with counterparties may be negatively impacted by perceptions about the Group.

- Periods of underperformance could lead to disproportionate redemptions in the funds of the Group's asset management business or a decline in the rate at which the business acquires additional assets under management and the performance of the Group's asset management business may be adversely affected by mismanagement of client assets or liabilities and the loss of key investment managers or joint venture partners.
- Various new reforms to the legislation and regulation relating to the UK life insurance and asset management industries have been proposed that could adversely affect the Group.
- If the legislation or regulation to which Group companies are subject in a wide range of areas and in a wide range of jurisdictions are amended or interpreted and applied in a new way, the Group may be adversely affected.
- The Group is subject to ongoing FSA supervision and to potential FSA (and other regulator) intervention on industry-wide issues and to other specific investigations, reports and reviews relating to the Group.
- The Group is vulnerable to adverse market perception arising as a result of reputational damage, especially as it operates in a highly regulated industry.
- The Group's success will depend upon its ability to attract, motivate and retain key personnel.
- The Group may in the future need to change the basis under which it reports its embedded value.
- The Group's risk management policies and procedures may not be effective and may leave the Group exposed to unidentified or unexpected risks.
- If the Group experiences difficulties arising from outsourcing relationships, its ability to conduct business may be compromised.
- Legal and arbitration proceedings could cause the Group to incur significant expenses, which could have an adverse effect on the Group.
- Changes in accounting and other assumptions driven by experience and estimates may lead to increases in the level of provisioning or additional provisions being made in respect of a range of actual, contingent and/or potential liabilities including, but not limited to, tax.
- The Group has embarked on a significant restructuring and integration programme across the life businesses and asset management. If it is unable to manage the level of change efficiently and effectively there is a risk of an adverse effect on the Group.
- The Group may be required to make further contributions, in addition to those already agreed, to its defined benefit pension schemes for employees if the value of pension funds assets is not sufficient to cover future obligations under the schemes.
- If the Group is unable to maintain the availability of its systems and safeguard the security of its data, including customer data, due to the occurrence of disasters or other unanticipated events, its ability to conduct business may be compromised, which may have an adverse effect on the Group.
- The Group has exposure for claims under the Group's legacy general insurance business.
- Changes in taxation law may adversely impact the Group.
- The effect of future changes in tax legislation on specific products may have an adverse effect on the Group and may lead to policyholders attempting to seek redress where they allege that a product fails to meet their reasonable expectations.
- Changes to the current VAT rules may result in VAT being chargeable on certain outsourcing agreements of the Group.
- The Company may become resident in the UK for tax purposes, which could have an adverse effect on the Group, result in SDRT being payable in respect of transfers of DIs and affect the basis for its IGD calculation.
- The Jersey zero/ten tax regime may be amended which could result in the Company being subject to tax in Jersey on its income at a rate in excess of the current rate of zero per cent.
- Because the Company is incorporated under the laws of the Cayman Islands, shareholders may face difficulties in protecting their interests, and their ability to protect their rights through the US federal or Dutch courts, or the courts of England and Wales, may be limited.

- The UK City Code does not apply to the Company and, as a result, Shareholders may be adversely affected in the event of a takeover offer being made for the Company.

6.2 Risks related to US federal income taxation

- The Company may be a passive foreign investment company which could lead to additional taxes for US Holders of the Ordinary Shares or Warrants.
- US persons who own 10 per cent. or more of the Company's Shares including through Warrants (or that qualify as RPII Shareholders) may be subject to adverse tax consequences under the controlled foreign corporation rules.

6.3 Risks related to the Ordinary Shares and Ordinary Warrants

- The price of the Ordinary Shares and Ordinary Warrants may experience volatility.
- The Company's ability to continue to pay dividends on the Ordinary Shares will depend on the availability of distributable reserves, FSA restrictions and restrictions under the Group's credit facilities.
- The availability of Ordinary Shares for future sales and the existence of certain rights and securities pursuant to which further Ordinary Shares may be required to be issued could depress the share price of the Ordinary Shares and Ordinary Warrants and, in the case of issues of further Ordinary Shares, dilute existing holders.
- The Company has other equity securities in issue in addition to the Ordinary Shares and Ordinary Warrants which may impact the Company's ability to restructure its share capital or issue further Shares or Warrants.
- Shareholders in certain jurisdictions may not be able to participate in any future capital raisings or receive scrip dividends.
- There is no assurance that an active trading market will develop or that the Company will be included in the FTSE UK Index Series, including the FTSE 250 Index.
- The Company is not, and does not intend to become, registered in the US as an investment company under the United States Investment Company Act of 1940, as amended, (the "US Investment Company Act") and related rules.

PART II: RISK FACTORS

Investing in and holding Ordinary Shares or Ordinary Warrants involves a number of risks. Prior to making an investment decision in respect of the Ordinary Shares or Ordinary Warrants, prospective investors should consider carefully all the information contained in this Prospectus, including the following risk factors, and consult with their professional advisers.

The risk factors address the risks that the Directors believe are material in respect of the Group, the Ordinary Shares and the Ordinary Warrants (based on information known by the Group as at the date of this document). Additional risks and uncertainties not presently known to the Company, or that the Company currently considers to be immaterial, may also negatively impact the Group. The Group's business, results, financial condition and prospects could be materially adversely affected by any of these risks. The trading price of the Ordinary Shares and the Ordinary Warrants may decline due to any of these risks and investors could lose all or part of their investment.

1 RISKS RELATED TO THE GROUP

1.1 In times of extreme or prolonged market turbulence, the Group's life companies may not have sufficient liquid assets to meet their payment obligations and this could have an adverse effect on them and the Group.

As described in more detail below, periods of market turbulence (such as the period since August 2007) can result in materially reduced liquidity for both listed and unlisted investments. As at 31 December 2009, 57 per cent. of the funds of the life companies were invested in government, supranational and corporate debt securities, 25 per cent of the funds of the life companies were invested in equity securities and 3 per cent. of the funds of the life companies were invested in property, all of which may experience varying levels of market price volatility as well as reductions in tradability. In addition, the policyholder and shareholder funds of the life companies are invested in certain alternative asset classes that have been subject to market price volatility and constrained liquidity, due to, among other things, actions taken by investment managers to limit redemptions of such investments and, in the case of property, the illiquid nature of that asset class. Although the Group has existing controls that aim to ensure the life companies have sufficient liquid resources to meet their payment obligations, any of them could be subject to a liquidity shortage or be impacted by having insufficient liquid assets to meet payment obligations in times of extreme or prolonged market turbulence, with potential material adverse consequences on the life companies affected.

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

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

As a holding company, the Company ultimately relies on distributions and other payments from its subsidiaries, including in particular the life companies, to meet its funding requirements and the funding requirements of other Group companies which do not generate a cash surplus from their operations and other activities. As a result, a deterioration in the liquidity and solvency position of the life companies could, in addition to its impact on the individual life companies, have an adverse impact on the Group's funding, which could have a material adverse effect on the Group's business, results, financial condition and prospects.

1.2 As a holding company, the Company is dependent upon its subsidiaries to cover operating expenses and dividend payments. There are certain restrictions under the Group's financing arrangements which relate to its subsidiaries.

The Group's insurance and asset management operations are conducted through direct and indirect subsidiaries. As a holding company, the Company's principal sources of funds are dividends, inter-company loans from its subsidiaries, repayment of inter-company loans that have been made by the Company to its subsidiaries and any amounts that may be raised through the issuance of equity, debt and commercial paper.

The Group has ongoing principal repayment and interest payment obligations in respect of two separate credit facilities (being the Pearl Facility and the Impala Facility, as those terms are defined in Part XI: "Additional Information—Material Contracts—Credit Facilities"). In the event that transfers from the Group's subsidiaries are limited, this may impair the Group's ability to service these obligations. This may result in material adverse consequences, including the exercise by the external finance providers of their security rights over shares in Group companies. In addition, the Group is subject to restrictions on dividends and other cash flows around the Group and on acquisitions and disposals by the Group under the terms of these credit facilities. For further information on the restrictions placed on the Group under these credit facilities, see Part XI: "Additional Information—Material Contracts—Credit Facilities".

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

1.3 The Group may have to retain more regulatory capital as a result of fluctuations in investment markets or stricter regulatory capital requirements imposed by the FSA. The FSA is able to restrict the payment of cash from the Group's subsidiaries.

Firms that are permitted to conduct insurance business in the UK are required to maintain a minimum level of assets (referred to as regulatory capital) in excess of their liabilities. Continued fluctuations in investment markets will, directly or indirectly, affect levels of regulatory capital required to be held by the Group. In addition, the FSA may under existing regulations impose stricter regulatory capital requirements on the Group or regulations may be amended in the future (for example, as a result of Solvency II) to increase regulatory capital requirements in the future.

The FSA has the power under FSMA to place limitations upon the payment of cash from FSA regulated entities if, among other things, the FSA deems this necessary to preserve the entities' capital adequacy position.

As part of the change of control conditions relating to the Acquisition (as defined below in Part IV: "Information on the Group—Section A: The Company—History—Acquisition"), the FSA required that the Group use best endeavours to ensure that the Group retains Insurance Groups Directive (98/78/EC) (the "IGD") capital at the ultimate insurance parent undertaking in the EEA, Phoenix Life Holdings Limited ("Phoenix Life Holdings" or "PLHL"), in excess of 125 per cent. of the Group Capital Resources Requirement ("GCRR") at all times and restrict movement of assets, including paying dividends and making loans, to the extent required to maintain this margin (for further information, see Part V: "Industry—General Overview of the UK Regulatory Capital Framework—IGD Solvency Surplus").

The FSA also monitors the risk management activities of the asset management companies in the Group, which are required to utilise an Individual Capital Adequacy Assessment Process ("ICAAP") to identify material risks to the business and assess how much current and future capital is required to be held against these risks. An asset manager is primarily exposed to operational and reputational risk and these are analysed as part of the ICAAP process. The amount of capital that is required to be held by the asset management company against the operational and credit risks is assessed and is subject to review by the FSA.

An inability to meet regulatory capital requirements in the longer term could lead to intervention by the FSA, which could be expected to require the Group to take steps to safeguard the interests of policyholders and other customers with a view to restoring regulatory capital to acceptable levels. If such intervention were to occur, actions taken by the FSA may adversely impact creditors as well as Shareholders.

Adverse fluctuations in investment markets or stricter regulatory capital requirements could have a material adverse effect on the Group's business, results, financial condition and prospects and any requirement to retain additional regulatory capital in the Group may impact the Company's ability to pay dividends to Shareholders.

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

The Group is exposed to counterparty risk. Such counterparty risk may be caused by deterioration in the actual or perceived creditworthiness or default of issuers of the relevant instruments forming part of the Group's investments or from trading counterparties failing to meet all or part of their obligations, such as derivative counterparties or stock-borrowers failing to pay as required. For instance, assets held to meet obligations to policyholders include corporate bonds. An increase in credit spreads, particularly if it is accompanied by a higher level of issuer defaults, could have a material adverse impact on the Group's financial condition although some of this risk is shared with policyholders.

In common with many insurance companies and other institutional investors, the Group engages in securities lending, or stock-lending, activities, whereby the Group loans equity and debt securities from its portfolios to counterparties that use the loaned securities in their securities trading activities. In securities lending transactions, the legal title of the loaned securities passes from the lender to the borrower. While the Group seeks to lend securities only to high-quality borrowers to minimise the possibility of default, and then only within pre-set credit limits for each borrower, borrowers may default on their securities-repayment obligations to the Group due to bankruptcy, insolvency, lack of liquidity, operational failure, fraud, government intervention and other reasons. While the Group seeks to mitigate counterparty risk by obtaining collateral to support the obligations of counterparties, there can be no guarantee that the collateral obtained will be sufficient or effective in all circumstances in order to protect against those risks. The recent turbulence in financial markets increased the risk of counterparty defaults and increased the difficulty of finding suitable counterparties. Counterparty defaults could have a material adverse effect on the Group's business, results, financial condition and prospects.

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

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

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

The Group has liabilities under annuities and other policies that are sensitive to future mortality and longevity rates. In particular, annuities are subject to the risk that annuitants live longer, or longevity rates increase more, than was projected at the time their policies were issued, with the result that the issuing life company must continue paying out to the annuitants for longer than anticipated and, therefore, longer than was reflected in the price of the annuity. There may also be increases in the cost of meeting guarantees on policies with a right to convert their policy value into an annuity at a fixed rate and the contributions required to the Group's defined benefit pension schemes may also increase. Conversely, increased mortality, or higher mortality rates, increases death claims on term-insurance products.

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

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

In addition, the Group makes assumptions about the rates at which policyholders will surrender or otherwise terminate their policies prior to their maturity date. For products with guarantees at maturity, the Group is exposed to the risk that fewer policyholders will terminate their policies prior to their maturity date than assumed, since this will increase the volume of guarantees that are required to be met at maturity. Conversely, for policies with no guarantees, the anticipated future profits obtained from those policies may be curtailed if more policyholders terminate their policies prior to their maturity date than assumed.

If the assumptions underlying calculations of reserves are shown to be incorrect (e.g., if policyholders do not die at the rate assumed in actuarial calculations or if the volume of guarantees that are required to be met at maturity is greater than assumed), the Group may have to increase the amount of its reserves or the amount of risk reinsured, which could have a material adverse impact on the Group's business, results, financial condition and prospects.

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

The total principal amount outstanding under the Group's two main credit facilities as at 31 December 2009 was approximately £2.8 billion. These two main credit facilities require that a significant portion of the principal amount outstanding is repaid in the years 2014-2016. The cash flows emerging from the business up to and over this period may be insufficient to meet these repayment obligations and therefore the Group may need to refinance the outstanding principal amount on terms which are not as favourable as the existing terms or it may be unable to refinance those obligations at all. More information on the Group's credit facilities, including the bank covenants which impose limitations on its ability to undertake certain actions are detailed in Part XI: ''Additional Information—Material Contracts—Credit Facilities''. The Group's level of indebtedness, restrictions on the Group under the terms of its credit facilities and the ''silo'' structure of the Group's debt in terms of it having two separate credit facilities relating to separate groups of entities in the Group, could have an adverse effect on the Group, including:

- making it more difficult for the Group to satisfy its obligations with respect to its debt and other liabilities;
- requiring the Group to dedicate a substantial portion of its cash flow to payments on its debt, thus reducing distributions to shareholders;
- increasing the Group's vulnerability to a downturn in economic conditions;
- exposing the Group to increases in interest rates to the extent its variable rate debt is unhedged;
- placing the Group at a competitive disadvantage compared to its competitors that have less debt in relation to cash flow;
- limiting the Group's flexibility in planning for, or reacting to, changes in its business and industry;
- restricting the Group from pursuing strategic acquisitions or exploiting certain business opportunities, including moving subsidiaries between the groups to which the credit facilities relate; and
- limiting, among other things, the Group's ability to borrow additional funds or raise equity capital in the future and increasing the costs of such additional financings.

On the other hand, the Group's leverage currently has a positive effect on the Group's embedded value through the beneficial impact of the tax deductibility of interest and so any significant reduction in its indebtedness may have an adverse impact on the Group's embedded value as a consequence of higher tax payments than currently projected.

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

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

A component of the Group's strategy is to continue to grow by selectively acquiring additional closed life fund companies and portfolios and to consolidate those companies and portfolios within the Group in order to continue to grow the Group as its closed life funds run-off.

The Group's ability to acquire closed life fund companies and portfolios will depend upon a number of factors, including its ability to identify acceptable acquisition candidates, consummate acquisitions on favourable terms, integrate acquired companies and portfolios successfully, obtain regulatory consents from the FSA and other relevant regulatory authorities (such as for transfers and internal fund mergers under Part VII of FSMA) and obtain financing to support growth.

There are other closed fund consolidators as well as a number of other potential purchasers, including other insurance companies, banks, hedge funds and private equity firms. Prices paid to acquire closed funds increased significantly between 2004 and 2007. While the prices of closed fund life companies and portfolios may have decreased due to recent market conditions, there can be no assurance that prices will not increase if markets continue to recover.

Moreover, the Group may face difficulties in obtaining additional financing for any acquisitions.

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

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

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

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

- diligence investigations not identifying material liabilities or risks within the acquired business or adequately assessing the value of the acquired business;
- difficulties in integrating the risk, financial, technological and management standards, processes, procedures and controls of the acquired business with those of the Group's existing operations;
- challenges in managing the increased scope and complexity of the Group's operations;
- triggering or assuming liabilities, including employee pension liabilities;
- failure to achieve anticipated benefits from acquisitions;
- distraction of management from existing business;
- unexpected losses of key employees of the acquired operations;
- difficulties repaying acquisition and related financing costs; and
- changing the structure of the Group which may result in a reduction in unrelieved tax losses.

If the Group decides to dispose of a company which it owns, or the business or assets of such a company, such as a block of annuities, there is no guarantee that it will find a purchaser for such a company, business or assets, or that a potential purchaser will have the same view of the value of such company, business or assets. This may mean that the Group is unable to realise the target value of such company, business or assets. In addition, any disposal of part of the Group's business could reduce the assets under management by the Group and as a result reduce the revenues of the Group's asset management business.

If the Group is unable to successfully meet the challenges associated with any future acquisitions or disposals, this could have a material adverse effect on the Group's business, results, financial condition and prospects.

1.9 The Group's business is subject to risks arising from economic conditions in the UK and other markets in which it operates or in which its and its policyholders' investments are invested.

The Group's business is subject to risks arising from general and sector-specific economic conditions in the markets in which it operates or invests, particularly the UK, in which the Group's earnings are predominantly generated and in which its and its policyholders' investments are predominantly invested. Although investment risks are often borne, in whole or in part, by its policyholders in accordance with the terms of the relevant policies, fluctuations in investment markets and the general rate of inflation will, directly and indirectly, affect the Group's financial position, including its embedded value, its capital requirements and its results, including the Group's asset management income, which is to a large extent driven by the value of underlying investments. Substantial decreases in the value of investments could lead to shareholder capital of the Group's life companies being required to meet obligations to policyholders and regulatory capital requirements and could restrict the ability of the Group's life companies to distribute dividends or release capital to service or pay down debt or to distribute to their shareholders, including the Company, which in turn may restrict the Company's ability to distribute dividends to Shareholders.

In addition, in the event of a failure of a market participant, under the Financial Services Compensation Scheme ("FSCS"), the Group could be required to make contributions to compensate investors.

Over approximately the past three years, the global economy and the global financial system have been experiencing a period of significant turbulence and uncertainty. The very severe dislocation of the financial markets around the world, which began in August 2007 and substantially worsened in September 2008, triggered widespread problems at many large global and UK financial institutions, including insurance companies and asset managers. This dislocation has significantly impacted general levels of liquidity, the availability of credit and the terms on which credit is available. This crisis in the financial markets led the UK Government and other governments to inject liquidity into the financial system and to require (and participate in) the recapitalisation of the banking sector to reduce the risk of failure of certain large institutions and provide confidence to the market. Although the impact of the crisis on insurers has not resulted in as many failures as in the banking sector, regulators have, following the outcome of the crisis, signalled a need for insurers to hold high quality capital.

Despite this intervention, the volatility and market disruption in the financial sector has continued, albeit with some easing, in the second half of 2009 and to date in 2010. This market dislocation has been accompanied by recessionary conditions in many economies throughout the world, including the UK, although there are now some signs of improvement in a number of economies, including the UK. Whilst the widespread and severe effects of the global financial crisis on economies throughout the world (including, but not limited to, business and consumer confidence, unemployment trends, the state of the housing market, the commercial real estate sector, equity markets, bond markets, foreign exchange markets, commodity markets, attitude to counterparty risk, consumer prices, the availability and cost of credit, lower transaction volumes in key markets, the liquidity of the global financial markets and market interest rates) have already reduced, further volatility in financial markets could adversely affect the Group's profitability, lead to lower asset and other realisations and increase negative fair value adjustments and impairments of investments and other assets. The UK has recently emerged from recession, but there can be no assurance of a return to consistent economic growth nor that there will not be a further significant deterioration in the UK and other economies in which the Group operates. Moreover, future economic growth may be modest for some time and may be insufficient to prevent unemployment rising further. The rate at which deterioration of the global and UK economies has occurred has proven very difficult to predict as will be the timing and extent of any further deterioration or any recovery.

The exact impact of market risks faced by the Group is thus difficult to predict and guard against in view of (i) the severity of the recent global financial crisis, (ii) difficulties in predicting the rate at which any further economic deterioration may occur, and over what duration, and (iii) the fact that many of the related risks to the business are totally, or in part, outside the control of the Group.

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

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

As at 31 December 2009, the life companies held 25 per cent. of their funds as equity securities, 57 per cent. of their funds as debt securities and 3 per cent. of their funds as property investments. Although policyholders bear most of the impact of falls in equity, debt and property values in accordance with the terms of their policies, substantial decreases in the market prices of the Group's equity, debt and property investments could reduce the amounts available to fund its long-term policyholder obligations. This, in turn, could increase liquidity risks and could lead to shareholder capital of the Group's life companies being retained or shareholder capital available within the Group being required to be injected into the Group's life companies to meet obligations to policyholders and regulatory capital requirements.

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

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

The Group has significant exposure to investment risk in relation to the potential for lower earnings associated with the Group's asset management businesses and its unit linked business, where revenue is earned based on the fair value of the assets under management, generally as an ad valorem charge. As at 31 December 2009, Ignis Asset Management held 22 per cent. of its assets under management as equity securities and 55 per cent. as debt securities (including sovereign debt). Significant declines in equity markets and in the capital value of corporate bonds would negatively impact the value of assets under management and, as a result, management fee income earned by Ignis Asset Management.

Certain assets held by the Group, such as swaps, swaptions and other derivatives, move in line with swap yields whereas the Group's liabilities generally move in line with gilt yields. A change in the relative swap yields versus gilt yields could have an adverse effect on the Group's capital position and its embedded value. The Group has implemented hedging arrangements to protect it to an extent against this potential change in relative yields but not all exposure is hedged and it may not be possible or feasible to hedge such exposure in the future. There is also a risk that under Solvency II the primary driver of the Group's liabilities may change to swap yields rather than gilts yields which could mean that it would be movements in gilts which could give rise to adverse effects on the Group's capital position. Uncertainty over this key driver of the liabilities adds a further risk for the Group as it may be desirable to hedge gilts to swaps at an inappropriate time leading to additional costs.

Any substantial declines in equity markets, debt markets (including for sovereign debt) or property prices, or significant movements in swap yields relative to gilt yields, could have a material adverse effect on the Group's business, results, financial condition and prospects.

1.11 The Group may be adversely affected by changes in interest rates.

The Group's exposure to interest rate risk relates primarily to the market price and cash flow variability of financial instruments associated with changes in interest rates. Interest rates have been extremely volatile during the past two years. For example, the three-month Sterling LIBOR decreased from approximately 6.0 per cent. as at 31 December 2007 to approximately 0.6 per cent. as at 31 December 2009 and was approximately 0.6 per cent. as at 31 March 2010. Similarly, the yield on 10 year UK government bonds decreased from approximately 4.5 per cent. as at 31 December 2007 to approximately 3.0 per cent. as at 31 December 2008 and then increased back to 4.0 per cent. as at

31 December 2009 and was approximately 3.9 per cent. as at 31 March 2010. UK interest rates are expected to remain low for an extended period, but there is a risk that they will rise significantly if the UK is unable to manage effectively its indebtedness levels or level of inflation, or if markets consider that there is a significant risk of the UK not being able to manage these issues effectively, which could, inter alia, manifest itself in a downgrading of the UK's sovereign debt ratings.

The Group's liabilities to policyholders vary as interest rates fluctuate. Under relevant UK insurance regulations, the rate at which future actuarial liabilities can be discounted is based on the level of long-term interest rates and referenced to the so-called reliable yield associated with investments backing policyholder liabilities. As a result, a reduction in long-term interest rates increases the amount of the Group's policyholder liabilities. The Group attempts to match a significant proportion of its policyholder liabilities with assets whose sensitivity to interest rates is the same as, or similar to, that of the underlying liabilities. However, to the extent that such asset-to-liability matching is not practicable or fully achieved, there may be differences in the impact of changes in interest rates on assets and liabilities. Adverse movements in interest rates, in the absence of other countervailing changes, could cause a material increase in the net unrealised loss position of the Group's investment portfolio, which could have a material adverse effect on the Group's business, results, financial condition and prospects.

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

As at 31 December 2009, the Group had bank debt outstanding, through its two main credit facilities, with a principal amount of approximately £2.8 billion, all of which bears floating rates of interest. The Group has implemented hedging arrangements to protect it to an extent against interest rate fluctuations but not all borrowings are hedged and it may not be possible or feasible to hedge borrowings in the future. Increases in interest rates, to the extent not successfully hedged, may lead to material increases in the Group's interest payments, which could have a material adverse effect on the Group's business, results, financial condition and prospects.

Due to the long-term nature of the liabilities of the Group's life companies, sustained declines in long-term interest rates may also subject the Group to reinvestment risks and increased hedging costs. Declines in credit spreads may also result in lower spread income. During periods of declining interest rates, issuers may prepay or redeem debt securities that the Group owns, which could force the Group to reinvest the proceeds at materially lower rates of return. This could, in the absence of other countervailing changes, cause a material increase in the net loss position of the Group's investment portfolio, which could have a material adverse effect on the Group's business, results, financial condition and prospects.

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

The Group's group capital requirement is calculated in accordance with IGD which requires sufficient capital to be held such that the IGD calculation at the ultimate insurance parent undertaking within the EEA is positive.

For the Company, this means that the IGD calculation is performed at the PLHL level because the Company is resident in Jersey, a non-EEA country. If (a) the Company's head office were to be relocated to an EEA country or (b) the Company were to be managed and controlled in the EEA, the IGD calculation would be performed at the Company level. An equivalent problem would arise if: (i) the Group were to be supervised as if it were an EEA group pursuant to Solvency II (the main aspects of this framework are described in paragraph 1.21 of Part II: "Risk Factors—Various new reforms to the legislation and regulation relating to the UK life insurance and asset management industries have been proposed that could adversely affect the Group") or (ii) before Solvency II is implemented the legislation and rules regarding group capital were to be amended or interpreted in a new way. This would bring the Group's external bank debt into the IGD calculation (which will become the "group regulatory capital calculation" under Solvency II) and as a result, the Group may have to retain significantly more capital and consequently may not be able to meet its group capital requirements, which would have a material adverse effect on the Group's business, results, financial position and prospects.

1.13 The Group faces exposure to currency risks.

Certain of the Group's with profit funds have exposure to financial assets that are not denominated in pounds sterling. Although the Group aims substantially to limit the foreign exchange exposure of its financial assets, the Group's operations are subject to currency transaction risks from assets in circumstances where the currency risk is imperfectly hedged.

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

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

1.14 If the Group's businesses do not perform in accordance with expectations, it may be required to recognise an impairment of the Group's goodwill or its present value of acquired in-force assets or to establish a valuation allowance against deferred income tax assets or it may be unable to use tax relief to offset profits, any of which could have an adverse effect on the Group.

Upon the acquisition of subsidiaries and other businesses, the Group is required to recognise any goodwill or other intangible assets, including the present value of in-force ("PVIF") business arising upon such acquisition. Goodwill represents the excess of the amounts the Group paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. PVIF represents the net present value of the Group's interest in the expected pre-tax cash flows of an acquired in-force business associated with an acquisition of a portfolio of insurance policies. Policies generally have expected lives of between five and 50 years and the PVIF assets are amortised over the period of the related contracts.

The Group's results and financial conditions are consolidated in the Group's financial statements in accordance with International Financial Reporting Standards ("IFRS") for the current and future reporting periods. Under IFRS, the Group tests goodwill and PVIF assets of the Group at least annually for impairment. Impairment testing is performed based upon estimates of the fair value of the "cash generating unit" to which the assets relate. The cash generating unit is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows or other assets or groups thereof. The fair value of the cash generating unit is impacted by the performance of the business and could be adversely impacted by any efforts made by the Group to limit risk. If it is determined that goodwill or PVIF assets have been impaired, the Group will be required to write down the goodwill or PVIF assets by the amount of the impairment, with a corresponding charge to net income.

In the calculation of MCEV, allowance has been made for the tax relief arising from the Group's financing. The use of this tax relief depends on, in particular, the Group's businesses generating profits against which the tax relief can be offset. If the Group's businesses do not perform in accordance with expectations, full value may not be obtained in respect of this tax relief, which could affect the MCEV calculation.

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

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

As at 31 December 2009, the Group held 59 per cent. of its financial assets and investment property as debt securities, 21 per cent. of its financial assets and investment property as equity securities, 10 per cent. of its financial assets and investment property as holdings in collective investment schemes, 3 per cent. of its financial assets and investment property as holdings in property and 6 per cent. of its financial assets and investment property as derivatives, each at fair value in its consolidated financial statements. 4 per cent. of the Group's financial assets carried at fair value are held as "Level 3 financial instruments", which is the category that, under IFRS, relies the most on management estimates. The determination of fair values are made at a specific point in time, based on available market information and judgments about financial instruments, including estimates of the timing and amounts of expected future cash flows and the credit standing of the issuer or counterparty. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts.

During periods of market disruption, including periods of rapidly widening credit spreads or illiquidity, it has been, and will likely continue to be, difficult to value certain of the Group's investments, particularly if trading becomes less frequent or reliable market data becomes unavailable, as has occurred in certain markets in recent years. As such, valuations may include inputs and assumptions that are less observable or require greater estimation thereby resulting in values which may differ materially from the values at which the investments may be ultimately sold or realised. Further, rapidly changing credit and equity market conditions could materially impact the reported valuation of the Group's securities and the period-to-period changes in value could vary significantly. The Group may have, in assessing the fair value of its assets, overvalued or undervalued some of those assets, which could result in it having managed those assets less efficiently than it would have otherwise or, in the case of assets that have been overvalued, result in those assets being impaired in the future following sale or revaluation. Either of these could have a material adverse effect on the Group's business, financial condition, results and prospects.

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

The Group's life companies, by their nature, are in long-term run-off. In order to protect with profit policyholder benefits and shareholder returns, it will be necessary to reduce the costs of managing the Group's long-term business at least in line with the run-off profile, which the Group partly does through the use of outsourcing arrangements. The Group is exposed to the risk that it may be unable to reduce costs proportionately or to adjust to an appropriate new balance of fixed and variable costs. This exposure could arise, for example, from deficient management, contractual restrictions, significant changes in the regulatory environment, material sector-specific inflationary pressures or an unexpected increase in policy lapses. The current expense assumptions for policy charges are based on anticipated governance costs and the underlying administration services contracts, whether with intra-group or external providers and these assumptions may prove incorrect. An inability to adjust costs in line with the run-off profile at the Group's funds could have a material adverse effect on the Group's business, results, prospects and financial condition.

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

In the 1970s and 1980s, when interest rates were higher than they currently are or have been in recent years, UK life insurance companies (including the life companies within the Group) sold pension contracts that contained certain guarantees or options, including guaranteed annuity options ("GAOs") that allowed the policyholder to elect to take the lump sum payable upon the maturity of the pension and apply the funds to purchase an annuity at a minimum guaranteed rate. During the last decade, average interest and inflation rates have been lower and life expectancy has increased more rapidly than originally anticipated. As a result, the guaranteed rate applicable to these contracts in many cases is more favourable than annuity rates currently available in the market. There has been significant market concern in recent years as to the implications of such guarantees and options for reserving and bonus declarations.

The Group's life companies have existing liabilities relating to guarantees and options contained in policies, which are increased by adverse movements in interest rates, increasing life expectancy and the proportion of customers exercising their options. The Group has purchased derivatives that provide some hedge protection against movements in interest rates but not all such interest rate risk is hedged and it may not be possible or feasible to hedge such risks in the future. The Group is also exposed to counterparty risk in respect of such financial instruments. The most significant factors affecting the cost of these liabilities relative to the provisions made are the number of customers electing to exercise their option to take the more favourable annuity rates, the relative values of any hedge derivatives that may be maintained from time to time and the longevity rates of annuity holders. The Group's business, results, financial condition and prospects may be materially adversely affected if such liabilities are significantly increased.

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

As an insurer, the Group, through reinsurance with third parties, seeks to reduce the losses that may arise from insurance risk (and in particular in relation to the Group's life companies, mortality, longevity and morbidity risk) that can cause unfavourable outcomes to its business. As a result, the Group has substantial exposure to reinsurers through reinsurance arrangements in relation to the Group's life companies and also its general insurance business. Under these arrangements, reinsurers assume all or a portion of the costs, losses and expenses associated with the reinsured policies' claims and reported and unreported losses in exchange for a premium, or as part of a sale arrangement. However, the Group's insurance companies remain liable as the direct insurer (or reinsurer) on all risks reinsured (or retroceded). Consequently, ceded reinsurance arrangements do not eliminate the Group companies' obligation to pay claims, and the Group's companies are subject to reinsurer credit risk with respect to their ability to recover amounts due from reinsurers. While the Group regularly evaluates the financial condition of its reinsurers to minimise its exposure to significant losses from reinsurer insolvencies, reinsurers may become financially unsound or choose to dispute their contractual obligations when they become due. Reinsurers may also seek to "cut off" the obligations they owe under the reinsurances by "scheme of arrangement". A scheme of arrangement allows an insurer or reinsurer to achieve finality for their exposure to certain policies by giving creditors a fair valuation of ultimate liabilities (i.e., settling all known claims balances and Incurred But Not Reported balances). A scheme of arrangement may limit the benefit of reinsurance protections and ultimately the amount available to pay out subsequent claims.

In addition, market conditions beyond the Group's control determine the availability and cost of the reinsurance that the Group is able to purchase in the event that the existing reinsurance arrangements prove to be insufficient. Historically, reinsurance pricing has changed significantly from time to time. No assurances can be given that reinsurance will remain continuously available to the Group to the same extent and on the same terms as are currently available or which were available at the time that the current arrangements were established. If the Group were unable to maintain its current level of reinsurance or purchase new reinsurance protection in amounts that the Group considers sufficient and at prices that it considers acceptable, the Group would have to either accept an increase in its net liability exposure or develop other alternatives to reinsurance. In addition, many of the larger reinsurance assets cover business which, as part of the relevant reinsurance arrangement, is managed and administered entirely by the reinsurer, with little ability of the reinsured company to influence the management thereof.

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

1.19 The Group's ability to raise debt and equity financing in the future and its dealings with counterparties may be negatively impacted by perceptions about the Group.

On 25 April 2009, PGH1 (previously Resolution) deferred the coupon payments on its Tier 1 Bonds. While this deferral was permitted by the terms of the agreements governing the Tier 1 Bonds, this deferral could have created a negative impression of the Group that could negatively impact the Group's ability to raise future financing in the debt and equity capital markets. Following the deferral of the coupon payments, an ad hoc committee was formed to represent the holders of the Tier 1 Bonds. This committee expressed the bondholder group's concerns regarding the deferral of the coupon payments and an intra-group reorganisation that took effect in December 2008, and sought clarification as to PGH1's intentions in relation to the deferred coupon payments, the effectiveness of the dividend stopper that operates at the PGH1 level and various other issues. The Company worked with the committee to seek to agree a proposal with holders of Tier 1 Bonds which would address such concerns and at the same time obtain their agreement to a reduction in the principal amount of the Tier 1 Bonds. A proposal was put to bondholders on 27 January 2010 which failed. On 23 March 2010 PGH1 announced its intention to defer the coupon payment due 25 April 2010 as agreement had not yet been reached on revised proposals. However on 22 April 2010 revised proposals to amend the terms of the Tier 1 Bonds were approved by a meeting of bondholders. As a result of this approval the 2010 coupon was paid and an undertaking was given to satisfy the 2009 deferred coupon by the end of 2010. For further information on the Tier 1 Bonds, see Part XI: "Additional Information—Material Contracts—Tier 1 Bonds".

Negative impressions in relation to the Group's creditworthiness and finance arrangements could limit its ability to raise finance in the future. There are also potential adverse implications for dealings with other market counterparties where the perception of the Group's creditworthiness has been damaged. Either of these could have a material adverse effect on the Group's business results, financial condition and prospects.

1.20 Periods of underperformance could lead to disproportionate redemptions in the funds of the Group's asset management business or a decline in the rate at which the business acquires additional assets under management and the performance of the Group's asset management business may be adversely affected by mismanagement of client assets or liabilities and the loss of key investment managers or joint venture partners.

If investment performance of the Group's asset management business or its joint venture partners underperform relative to other asset management firms, existing clients may decide to reduce or liquidate their investments or transfer mandates to other asset managers and the Group may be unable to attract new asset management clients. In addition, a change in the nature of clients' requirements may also result in an increase in redemptions or a reduction in the number of new mandates. An increase in redemptions or clients transferring mandates to other asset management firms or the reduction in asset management mandates that the Group is able to attract could have a material adverse effect on the Group's results, financial condition and prospects.

The Group's asset management business generates a substantial part of its income from investment mandates from the Group's life companies. The life companies could withdraw their mandates or decide not to award additional mandates for regulatory or other reasons, which could significantly reduce the value of the Group's asset management business, with potential material adverse consequences for the Group's results, financial condition and prospects.

The Group's asset management business is also subject to risks associated with the process of managing client assets and providing asset and liability management services, such as the risk of failure to manage the investment process or execute trading activities properly which could lead to poor investment decisions, incorrect risk assessments and poor asset allocation, the wrong investments being bought or sold and incorrectly monitoring exposures. A failure to achieve competitive investment returns on clients' assets or to manage their interest rate and liquidity risks effectively could lead to the loss of clients or a liability for the Group to pay compensation, which could have a material adverse effect on the Group's business, results, financial condition and prospects.

In addition, if the Group loses any of its key investment managers or joint venture partners, it may also lose certain investment management mandates and funds or be "put on hold" by consultants and other controllers of investments, making the retention and winning of mandates and funds more difficult.

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

1.21 Various new reforms to the legislation and regulation relating to the UK life insurance and asset management industries have been proposed that could adversely affect the Group.

The EU Commission is continuing to develop a new prudential framework for insurance companies, the Solvency II project. This project will update, among other things, the existing EU life, non-life, reinsurance and insurance groups directives. The scope of the Solvency II project is wider than Basel 2. It will contain rules, many of which are new, further details of which are provided in Part VI: "Regulation—Additional Regulation of Insurance Business—New EU solvency framework equivalence consideration".

The Solvency II directive containing the outlines of the above regime was formally adopted in November 2009 and will in due course be supplemented by further more detailed level 2 rules and non-binding standards and guidance at level 3.

The FSA published a discussion paper in September 2008 and a feedback statement setting out its expectations as to how firms should prepare for the transition to the new regime. This has been followed up by further publications.

The Group is actively monitoring proposals as they develop and participates in feedback provided from the industry to the regulators. The Directors expect Solvency II to result in an improved understanding of the link between risk and capital management and welcome the increased focus on risk management that Solvency II will bring. The Directors are, however, concerned that the recent final advice from CEIOPS is more conservative than the Level 1 Framework Directive and more onerous than the existing Pillar 2 regime. As currently drafted, the technical specifications would result in a significant increase in the capital requirements of the industry. The Group is currently working with the Association of British Insurers and other UK insurers through membership of the Solvency II working group with a view to ensuring that the final specifications are appropriate for the UK insurance market. In April 2010 the EU Commission published for consultation its draft technical specifications for the fifth quantitative impact study (QIS5) which test the impact of the new regime under Solvency II. This has departed from CEIOPS advice in a number of respects, suggesting that the EU Commission may in some crucial areas relax the level of prudence recommended by CEIOPS. Further calibration of capital requirements is expected following the QIS5 results.

In addition, the Solvency II framework includes specific provision for supervision of groups in which the parent has its head office outside the EEA. This applies to the Company, as its head office is in Jersey. The treatment of such groups is not yet entirely clear and depends on whether the jurisdiction in which the parent has its head office is determined to have an equivalent regime and whether there is an EEA sub-group. If Jersey is not determined to be equivalent, and the ultimate provisions require group solvency to be measured at the ultimate parent rather than the EEA sub-group level the Group may be supervised as if it were an EEA group. This would, among other things, result in the IGD calculation (which will become the "group regulatory capital calculation" under Solvency II) having to be performed at the Company level. This would bring the Group's external bank debt into the calculation and as a result, the Group may have to retain significantly more capital and consequently may not be able to meet its group capital requirements. In addition, if EEA rules, rather than local rules, were to be applied, the effect might be to reduce the extent to which a non-EEA member of the group, such as Opal Reassurance Limited ("Opal Re"), contributes to group capital adequacy.

The EU Commission has also published a proposal for a directive to regulate the managers of "alternative investment funds," which are very widely defined. The proposal is controversial and may be significantly amended before it is adopted. Aspects of the proposal, for example restrictions on delegation and a requirement to use a depositary and an independent valuation agent, could have a significant impact on the Group's asset management business.

In addition, in the UK, the FSA has adopted a regime of "principles-based", or "outcomes-based", regulation of the financial services industry. Principles-based regulation involves a greater degree of reliance on broadly stated, high level principles to set the standards by which regulated firms must conduct business, rather than on more detailed rules. In terms of compliance, there is a greater need for regulated firms, such as the Group, to make qualitative judgments for themselves and to integrate their compliance and business processes. Firms are expected to use the principles to form an ethical business culture, which is intended to ensure that any gaps in the rules-based regime are dealt with. The FSA has also responded to the current financial crisis, and the financial problems experienced by a number of financial institutions, by announcing a more intensive and intrusive regulatory approach. The FSA has also been adopting a more aggressive enforcement approach with a view to achieving credible deterrence. Although the Group is generally not subject to regulatory risks relating to the sale of new policies, the uncertainties of principles-based regulation, coupled with a more intensive regulatory and enforcement approach from the FSA, may result in an increased risk of regulatory intervention in the business of the Group, including the attribution or distribution of its funds.

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

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

The legislation and regulation affecting members of the Group govern matters with respect to a wide range of areas and in a wide range of jurisdictions. In particular, Group companies are subject to applicable law and regulation, both within the UK (principally by the FSA) and internationally in Hong Kong, Ireland, Luxembourg, Guernsey and Jersey and to applicable laws in the US. Certain Group companies are also subject to applicable law in the Cayman Islands. The FSA is the most significant of these regulators in respect of the Group's regulated companies, although other regulators have powers and responsibilities that may affect the Group's operations within each such regulator's jurisdiction. In particular, Opal Re, a Group company and reinsurer for certain of the Group's life companies, is subject to regulation under the laws of Bermuda and the rules of the Bermuda Monetary Authority (the "BMA").

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

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

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

The Group is subject to ongoing supervision by the FSA. During 2010, the FSA will undertake its periodic "Advanced Risk Responsive Operating Framework", or ARROW, review of the Group. ARROW is the primary means by which the FSA assesses the risks to its statutory objectives posed by FSA-regulated entities. The outcome of the FSA's ARROW review of the Group will be encapsulated in a Risk Mitigation Programme on the Group, which the Group will be required to implement, and which may lead to additional costs of implementation being incurred by the Group.

In addition to the ARROW process, the FSA, in carrying out its supervisory role, may undertake, or procure, other reviews or processes (including skilled persons reports under section 166 of FSMA) in respect of authorised firms, including in respect of the Group. The FSA has indicated a move to more intensive supervision and that the incidence of the use of such reviews and processes is likely to increase. The Group has been and expects to be subject to such reviews or processes from time to time. The outcomes of such reviews and processes may range from no action being required, through recommendations for actions by the Group to enforcement action and public censure.

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

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

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

- significant direct costs or liabilities for the Group's life companies; and
- changes in the Group's practices which benefit policyholders at a cost to shareholders.

In addition to the FSA, certain of the Group's life companies are regulated in foreign jurisdictions resulting in potential policyholder claims and regulatory intervention in those jurisdictions on a similar basis in respect of non-UK regulations.

The FOS exists to resolve disputes involving individual or small business policyholder disputes. While decisions are not made public, applicants may pursue customary legal remedies if decisions of the FOS are considered unacceptable. From time to time, decisions taken by the FOS may, if extended to a particular class or grouping of policyholders, have a material adverse effect on the Group's business, results, financial condition and prospects. In addition to the FOS, certain of the Group's life companies are subject to foreign regulation and may fall under the jurisdiction of a non-UK body similar to the FOS.

Reports, reviews, interventions and investigations by the FSA, FOS and other regulators and bodies such as those described above, whether relating to the Group specifically or to the industry generally, could disrupt the Group's ability to operate its business, could increase compliance costs or restrict the Group's ability to extract projected cash flows from the life companies, and could as a result or more generally have a material adverse effect on the Group's business, results, financial condition and prospects.

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

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

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

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

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

Within Ignis Asset Management different funds may be managed by the same manager or team. There is a risk that the manager or team maydevote more time to those funds which provide higher remuneration either through the base fee or performance fee arrangements. Ignis Asset Management could suffer reputational damage or potential regulatory liability if its procedures and systems to detect such conflicts of interest fail or it fails to deal appropriately with such conflicts of interest, with the possible adverse effects on the Group set out above.

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

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

The continued success of the Group will depend on its ability to attract, motivate and retain highly skilled management and other personnel, including actuaries, portfolio and liability managers, analysts and executive officers. Competition for qualified, motivated and skilled personnel in the life insurance and asset management industries remains significant. Moreover, in order to retain certain key personnel, the Group may be required to increase compensation to such individuals, resulting in additional expenses.

The risk of the Group being viewed adversely by potential employment candidates or of the loss of valuable personnel is heightened under current circumstances, with the Group having embarked on a significant restructuring programme.

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

1.26 The Group may in the future need to change the basis under which it reports its embedded value.

European-listed life insurance companies generally publish embedded value information to supplement their financial information prepared in accordance with IFRS, as investors and market analysts view embedded value information as a more realistic measure of valuation and profit reporting than IFRS financial information. The Group, as well as most European-listed insurance companies, looks to principles or guidelines adopted by the European Insurance CFO Forum (the "CFO Forum") for guidance in reporting embedded value. While all member companies of the CFO Forum that report MCEV were required to adopt the European Insurance CFO Forum Market Consistent Embedded Value Principles (Copyright© Stichting CFO Forum Foundation 2008) (the "MCEV Principles") by 31 December 2009, the CFO Forum, on 22 May 2009, extended this deadline to 31 December 2011 to enable the CFO Forum to conduct a review of the impact of recent turbulent market conditions on the MCEV Principles. The CFO Forum has acknowledged the MCEV Principles were designed during a period of relatively stable market conditions and their application could, in turbulent markets, lead to misleading results. The CFO Forum's review may lead to changes to the published MCEV Principles or to the issuance of additional guidance by the CFO Forum. On completion of this review, the Group will consider its approach to the MCEV Principles. If the Group adopts new principles promulgated by the CFO Forum, this will result in a restatement of reported embedded value results and change the reporting basis of future results. Accordingly, future reported embedded value information may be materially different, or may be prepared in a materially different manner, than the information contained in this Prospectus. The extent to which the Group currently complies with the MCEV Principles is set out in Part VII: "Embedded Value Information—Notes to the pro forma MCEV financial statements".

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

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

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

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

The Group's life companies outsource almost all of their key customer service, policy administration, accounts collection, human resource administration and information technology functions to third party providers under formal outsourcing arrangements. If the Group does not effectively develop, implement and monitor its outsourcing strategy, third party providers do not perform as anticipated or the Group experiences problems with a transition of outsourcing arrangements, the Group may experience operational difficulties, increased costs, reputational damage and a loss of business that may have a material adverse effect on the Group's business, results, financial condition and prospects. In addition, the failure or insolvency of or inability to provide the relevant services by one or more of the Group's service providers could have a material adverse effect on the Group's ability to sustain its ongoing operations, which could have a material adverse effect on the Group's business, results, financial conditon and prospects.

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

From time to time, the Group is party to various legal and arbitration proceedings (including the matters discussed in Part XI: "Additional Information—Legal and Arbitration Proceedings"), in some of which monetary damages are sought. The Group's management cannot predict with certainty the outcome of any pending legal and arbitration proceedings or potential future legal and arbitration proceedings, and the Group may incur substantial expense in pursuing or defending these proceedings. Potential liabilities may not be covered by insurance, the Group's insurers may dispute coverage or may be unable to meet their obligations, or the amount of the Group's insurance coverage may be inadequate. Moreover, even if claims brought against the Group are unsuccessful or without merit, the Group would have to defend itself against such claims. The defence of any such actions may be time consuming and costly, may distract the attention of management and potentially result in reputational damage. As a result, the Group may incur significant expenses and may be unable to effectively operate its business. Any of the above could have a material adverse effect on the Group's business, financial condition, results and prospects.

1.30 Changes in accounting and other assumptions driven by experience and estimates may lead to increases in the level of provisioning or additional provisions being made in respect of a range of actual, contingent and/or potential liabilities including, but not limited to, tax.

A provision is recognised when the Group has a present legal obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. However, provisions held by the Group, including those relating to tax, may prove inadequate or inaccurate resulting in a material liability. Liabilities may also arise where no provision has been made. In particular, the tax treatment of recent acquisitions, disposals and other corporate transactions is yet to be reviewed by HM Revenue & Customs ("HMRC").

1.31 The Group has embarked on a significant restructuring and integration programme across the life businesses and asset management. If it is unable to manage the level of change efficiently and effectively there is a risk of an adverse effect on the Group.

The Group has announced a number of significant restructuring programmes. These have included consolidation of the life company activities from three sites into Wythall, the consolidation of Ignis Asset Management and Axial and the reorganisation of certain of the Group's outsourcing relationships. These programmes involve the relocation of a large number of staff and system rationalisation. The transformation activities relating to the information technology systems involve consolidation of actuarial, finance and general ledger functions and, more generally, renegotiation regarding the relationship with the outsourcers. During this period of change there is a risk that the Group's frameworks of control, compliance and risk management may be weakened which could have a material adverse effect on the Group's business, results, financial conditions and prospects.

The Group's finance function is still in the process of embedding IFRS and MCEV reporting and is currently implementing 60-day reporting for the production of its interim results. In particular, the transition of the Group's finance function into Wythall and London is a significant programme and the risks associated with the implementation are exacerbated by the number and scale of these concurrent projects. Furthermore, there are significant changes at a very senior level within the finance team, including the resignation of Simon Smith as Finance Director, which increase the probability that one or more of these programmes may not be implemented as effectively as it should be. In addition, the transformation of the Group's actuarial systems may require further actuarial resource which the Group may find difficult to recruit. Any of the above could have a material adverse effect on the Group's business, results, financial condition and prospects.

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

The Group maintains a number of defined benefit pension schemes for past and current employees, all of which have been closed to new participants, subject to the Group's ability to admit new members at its discretion. There is a risk that the liabilities of the pension schemes, which are long-term in nature, will exceed the schemes' assets, including when measured on a buy-out basis (i.e., the cost of buying out all members' benefits with an insurer), as a result of which the Group is required, or may choose, to make additional contributions to the schemes.

The Group has two key pension schemes, namely the pension scheme covering the employees of the Group prior to the acquisition of Resolution Group (the "Pearl Group Staff Pension Scheme") and the pension scheme covering the employees of Impala's subsidiaries (the "PGL Pension Scheme"). Each of the two schemes has a defined benefit section and a defined contribution section. The vast majority of the liabilities of each of the two schemes relate to ex-employees who are entitled to pensions on a defined benefit basis. Further information on the scheme is given in Part X: "Directors, Senior Management and Employees—Section E: Pensions" and Part XI: "Additional Information—Material Contracts—Pearl Group Staff Pension Scheme Agreements".

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

Funding obligations (on a share of the buy-out basis) can also arise under section 75 of the UK Pensions Act 1995 if an employer ceases to participate in the pension schemes (e.g., on a sale) while another employer continues to participate. Any such section 75 debt would be by reference to the relevant employing company's share of the total buy-out debt, the total buyout debt being equivalent to the funding deficit calculated on a winding-up basis which could prevent the Group entering into business disposals involving employers participating in the defined benefit pension schemes.

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

The pension schemes' trustees are required to undertake triennial valuations of the schemes and agree with the Group statutory funding plans, although the trustees are free to call for a further valuation on an earlier date if they see fit. Copies of the statutory funding plans may need to be provided to the Pensions Regulator which may, if it is not satisfied that the Group will eliminate the funding deficit in a timely manner, require the trustees of the relevant pension scheme to seek to revise the plan. The Group could also be pressured by the pension trustees or, in certain circumstances, directed by the Pensions Regulator, to make additional contributions to the pension schemes (e.g., as a result of any corporate activity which the UK pension regulator views as having a material, detrimental effect on the pension schemes). Alternatively, the Group may choose to make additional contributions to the schemes.

The interaction of, among other things, increased life expectancy, poorly performing equity markets and low interest rates over the past several years has had a significant negative impact on the funding levels of the pension schemes. This has materially increased the Group's funding obligations in respect of the pension schemes. Any future decline in the value of scheme assets, changes in mortality and/or morbidity rates, future decreases in interest rates or changes in the current investment strategies of the pension schemes could increase or contribute to the pension schemes' funding deficits and require additional funding contributions in excess of those currently expected.

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

1.33 If the Group is unable to maintain the availability of its systems and safeguard the security of its data, including customer data, due to the occurrence of disasters or other unanticipated events, its ability to conduct business may be compromised, which may have an adverse effect on the Group.

The Group uses computer systems to store, retrieve, evaluate and utilise customer and company data and information. The Group's computer, information technology and telecommunications systems, in turn, interface with and rely upon third party systems, including those of third party outsourced service providers ("OSPs"). The Group's business is highly dependent on its ability, and the ability of certain third parties, to access these systems to perform necessary business functions, including, without limitation, processing premium payments, making changes to existing policies, filing and paying claims, administering annuity products, providing customer support and managing the Group's investment portfolios. Systems failures or outages could compromise the Group's ability to perform these functions in a timely manner, which could harm its ability to conduct business and hurt its relationships with its business partners and customers. The risk of an adverse effect on the Group is heightened under current circumstances with the Group having embarked on a significant restructuring and integration programme. In the event of a disaster, such as a natural catastrophe, an industrial accident, a blackout, a computer virus, a terrorist attack or war, the Group's systems may be inaccessible to its employees, customers or business partners for an extended period of time. The Group's systems could also be subject to physical and electronic break-ins, and subject to similar disruptions from unauthorised tampering. This may impede or interrupt the Group's business operations or lead to unauthorised disclosure or loss of data or data corruption, including customer data, which could lead to legal liability and damage the Group's reputation. Further, because of the long-term nature of much of the Group's life companies' businesses, accurate records have to be maintained for significant periods.

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

1.34 The Group has exposure for claims under the Group's legacy general insurance business.

The Group formerly wrote a variety of property and casualty insurance business, which has all been placed into run-off. The Group retains residual exposure to some of this business, and the Group's strategic intent for some years has been to proactively settle these legacy claim liabilities and dispose of them by way of solvent scheme, retrocession, statutory transfer or sale. The Group's remaining general insurance business liability exposure amounts to approximately £33 million of claims reserves, net of reinsurance and discounting, as at 31 December 2009. Although the Group aims to hold prudent reserves against its residual exposure, including Incurred But Not Reported reserves, much of the Group's remaining legacy general insurance exposure relates to asbestos, pollution, environmental and health hazard liabilities that are long-tail in nature given that it may take many years for a policyholder's injury or harm to become known and the attendant uncertainties regarding what circumstances gave rise to the claim and who should pay. Therefore, there is a risk that the Group's current reserves may be inadequate to cover future claims payments under its legacy general insurance business, and that the Group may need to devote additional capital to support these policies, which could have a material adverse effect on the Group's business, results, financial condition and prospects.

1.35 Changes in taxation law may adversely impact the Group.

UK and overseas taxation law includes rules governing company taxes, business taxes, personal taxes, capital taxes and indirect taxes. The Group's management cannot predict accurately the impact of future changes in UK and overseas tax law on its business. From time to time, changes in the interpretation of existing UK and overseas tax laws, amendments to existing tax rates, changes in the practice of tax authorities, or the introduction of new tax legislation in the UK or overseas may adversely impact the Group's results, financial condition and prospects.

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

UK and overseas legislation governs the taxation of life companies and changes to this legislation might adversely affect the Group. In particular, the introduction of the Solvency II project, currently scheduled for implementation at the end of 2012, may have a significant impact on the taxation of life companies and therefore on the Group's tax position. Solvency II will supersede the current regulatory reporting requirements, which at present form the basis of taxation of life assurance companies in the UK. In March 2010 HMRC issued a consultation paper regarding the impact of Solvency II on the taxation of insurance companies. The consultation paper explores the implications of a proposed move to using company accounts as the basis for computing trading profits of life insurance companies, considers the tax impact of Solvency II on reserves maintained by general insurance companies and raises the question of whether the introduction of Solvency II might be an opportunity to move away from, or modify, the current "I minus E" system of taxation applying to life companies under which tax is collected on both the company's profits and those accruing to its policyholders. Consultation is at an early stage and the Group is unable to predict the impact which any changes might have on the Group's results, financial condition and prospects.

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

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

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

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

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

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

VAT is currently reduced or not charged on services under the outsourced services agreements on the basis that the services are exempt under the insurance intermediaries' exemption. However, this is subject to possible change. The EU Commission has adopted proposals for a directive and regulation that would change the existing rules in relation to the insurance intermediaries' exemption, and these now need to be agreed unanimously by the EU Member States, after consultation by the European Parliament. It is not currently possible to predict with any accuracy whether or when the changes are likely to be agreed, how the changes will be implemented in UK law nor whether HMRC will change its practice prior to such changes coming into effect. If any such changes are effected, this may lead to the conclusion that services under the Group's outsourced services agreements for policy administration would be treated as subject to VAT. Although certain of the outsourced services agreements have a measure of protection against such changes, since VAT is largely irrecoverable by the Group, such treatment may have a material adverse effect on the Group's business, results, financial condition and prospects.

1.38 The Company may become resident in the UK for tax purposes, which could have an adverse effect on the Group, result in SDRT being payable in respect of transfers of DIs and affect the basis for its IGD calculation.

Since the Company is not incorporated in the UK, it will not be treated as being resident in the UK for UK corporation tax purposes unless its central management and control is exercised in the UK. The concept of central management and control is indicative of the highest level of control of a company, which is a question of fact. The Directors operate in a manner intended to ensure that the Company is not resident in the UK for tax purposes (and intend to continue to operate in such manner).

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

If the Company is treated as being resident in the UK for UK corporation tax purposes, or if it is treated as carrying on a trade in UK through a permanent establishment, this could have a material adverse effect on the Company's business, results, financial condition and prospects.

In addition, if the Company is treated as being resident in the UK for corporation tax purposes, the Directors believe that there is a risk that the FSA will require the IGD calculation (which will become the "group regulatory capital calculation" under Solvency II) to be made at the Company level, as further described above in paragraph 1.12 of this Part II: "Risk Factors—If the legislation or regulation to which the Group is subject in relation to group capital is amended or interpreted and applied in a new way, the Group may have to retain more capital or, in the longer term, may not be able to meet its group capital requirements", which could have a material adverse effect on the Group's business, results, financial position and prospects.

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

1.39 The Jersey zero/ten tax regime may be amended which could result in the Company being subject to tax in Jersey on its income at a rate in excess of the current rate of zero per cent.

Central management and control of the Company is currently exercised in Jersey such that the Company is considered to be resident in that jurisdiction for all tax purposes. As the Company only carries out holding company activities it is expected to be subject to tax on its income at a zero per cent. rate of income tax under the "zero/ten" tax regime introduced by Jersey, Guernsey and the Isle of Man.

However the UK Government has recently advised representatives of Jersey, Guernsey and the Isle of Man that the zero/ten regimes introduced over the last few years are unlikely to be approved as compliant with the EU Code of Conduct. As a consequence Jersey, Guernsey and the Isle of Man have been asked to give a commitment that they will introduce a regime that is compliant with the spirit of the EU Code of Conduct in a two to three year timeframe. Any change in tax regime is likely to be introduced in the next three to five years and may result in the removal of the zero per cent. rate on income. It currently appears unlikely that any tax on capital gains will be introduced.

The removal of the zero per cent. rate of income tax in Jersey could have a material adverse effect on the Group's business, results, financial position and prospects.

1.40 Because the Company is incorporated under the laws of the Cayman Islands, shareholders may face difficulties in protecting their interests, and their ability to protect their rights through the US federal or Dutch courts, or the courts of England and Wales, may be limited.

The Company is incorporated under the laws of the Cayman Islands and substantially all of its assets are located outside of the US and the Netherlands. In addition, all of its Directors and officers are nationals or residents of jurisdictions other than the Netherlands and all, or a substantial portion of their assets, are located outside the US and the Netherlands. As a result, it may be difficult for investors to effect service of process within the US or the Netherlands upon the Company or its Directors or officers, or enforce judgments obtained in the US or Dutch courts against the Company or its Directors or officers. The Company's corporate affairs will be governed by its Articles of Association, the Companies Law (2009 Revision) of the Cayman Islands ("Companies Law") and the common law of the Cayman Islands. The rights of shareholders to take action against the Company, actions by minority shareholders and the fiduciary responsibilities of the Directors under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The UK Companies Act 2006 does not apply to the Company and Cayman Islands law does not provide identical shareholder protections to those contained in the UK Companies Act 2006. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from England, the decisions of whose courts are of persuasive authority, but are not binding on a court in the Cayman Islands, other than decisions by the Privy Council on appeal from the Cayman Islands, which are binding on a court in the Cayman Islands. The Cayman Islands has a less developed body of securities laws and corporate law as compared to the US, the Netherlands, the UK and other European jurisdictions. In addition, shareholders of Cayman Islands companies may not have standing to initiate a shareholder derivative action in a court in the Cayman Islands, a court in Amsterdam, a court in the UK or in a federal court of the US. The Cayman Islands courts are also unlikely to impose penal liabilities against the Company, in original actions brought in the Cayman Islands, based on certain civil liability provisions of US, Dutch or UK securities laws.

There is no statutory recognition in the Cayman Islands of judgments obtained in the Netherlands or England and Wales, although the courts of the Cayman Islands will in certain circumstances recognise and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits at common law, by an action commenced on the foreign judgment in the Grand Court of the Cayman Islands. It is doubtful the courts of the Cayman Islands will, in an original action in the Cayman Islands, recognise or enforce judgments of US, Dutch or English courts predicated upon the civil liability provisions of the securities laws of the Netherlands, England and Wales, the US, or any state of the US where such provisions are penal in nature. The Grand Court of the Cayman Islands may stay proceedings if concurrent proceedings are being brought elsewhere.

The rules on disclosure by shareholders of interests in a company under the Disclosure Rules and Transparency Rules of the FSA and under sections 793 and related sections of the UK Companies Act 2006 are not applicable to the Company. Under the Companies Law, shareholders are not obliged to disclose their interests in the Company in the same way as shareholders of a company governed by the UK Disclosure Rules and Transparency Rules and the UK Companies Act 2006. For further information on the rules of disclosure by shareholders of interests, see Part XI: "Additional Information—Memorandum and Articles of Association".

As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by officers, Directors or controlling shareholders than they would as public shareholders of a company incorporated in the US, the Netherlands or England and Wales.

1.41 The UK City Code does not apply to the Company and, as a result, Shareholders may be adversely affected in the event of a takeover offer being made for the Company.

The UK City Code on Takeovers and Mergers (the "City Code") is the regulatory framework within which takeovers in the UK are required to be conducted. The City Code is designed principally to ensure that shareholders are treated fairly and are not denied an opportunity to decide on the merits of a takeover, and that shareholders of the same class are afforded equivalent treatment by an offeror. The UK Panel on Takeovers and Mergers (the "Panel") issues and administers the City Code.

Since the registered office of the Company is in the Cayman Islands, it is not a company to which the City Code applies. Certain of the protections contained in the City Code have been included, as far as practicable, in the Articles of Association, and are summarised in Part XI: "Additional Information—Memorandum and Articles of Association". However, not all of the protections contained in the City Code are included in the Articles of Association. In addition, the inclusion of provisions in the Articles of Association may not provide shareholders with the same protection that they would receive under the City Code since, among other things, the Panel would not be involved in a takeover to which the City Code does not apply. In attempting to fulfill the role of the Panel, the Directors would not have the same powers or have access to the same information and experience as the Panel would have on a transaction to which the Code applies. The Dutch Financial Supervision Act and corresponding legislation implement the EU Directive 2004/25/EC of 21 April 2004 on public takeover offers (the "Dutch Takeover Act"). The rules promulgated under the Dutch Takeover Act regarding public takeover offers are applicable to the Company. The rules promulgated under the Dutch Takeover Act differ from those of the City Code and they are, in general, less detailed than the City Code. A general description of the Dutch Takeover Act rules regarding public takeover offers is given in Part XI: "Additional Information—Takeovers—Dutch Takeover Act". Furthermore, if, as the Company intends, the Ordinary Shares and the Ordinary Warrants are delisted from Euronext Amsterdam, the Dutch Takeover Act will no longer apply to the Company.

The Companies Law does not contain provisions similar to those in the City Code which oblige a person or persons acquiring at least 30 per cent. of voting rights in a company to which the City Code applies to make an offer to acquire the remainder of the shares in such company.

Under the Companies Law, an offeror in respect of a takeover offer for the Company may, in certain circumstances, obtain the right to compulsorily acquire shares to which the offer relates but which it has not yet acquired or contracted to acquire. The offeror may not issue a notice requiring the acquisition of minority shares unless it has acquired or contracted to acquire not less than 90 per cent. in value of the shares to which the offer relates before the end of four months beginning with the date of the offer and no notice may be given after the end of the period of two months beginning with that date. The squeeze-out of minority shareholders shall be completed unless on application made by a dissenting shareholder to the Cayman Islands court within one month from the date on which notice was given, the Cayman Islands Court thinks fit to order otherwise. The consideration offered to those shareholders whose shares are compulsorily acquired under the Companies Law should be the same as the consideration that was available under the general offer.

As a result of the above, Shareholders may be adversely affected in the event of a takeover offer being made for the Company.

2 RISKS RELATED TO US FEDERAL INCOME TAXATION

2.1 The Company may be a passive foreign investment company which could lead to additional taxes for US Holders of the Ordinary Shares or Warrants.

The Company may be a passive foreign investment company ("PFIC") for the current taxable year. In general, a non-US corporation is a PFIC for any taxable year in which, after taking into account the income and assets of 25 per cent. or more owned subsidiaries, either (i) at least 75 per cent. of its gross income is "passive income" (generally dividends, interest, rents, royalties and gains from the disposition of passive assets) or (ii) at least 50 per cent. of the quarterly average value of its assets produce, or are held for the production of, passive income. Passive income does not include income derived in the active conduct of an insurance business by a company which is predominantly engaged in an insurance business and that, if it were a US corporation, would be subject to tax under special rules that apply only to insurance companies. The application of this exception to the Group is uncertain. No authority directly addresses whether a company engaged in business as a closed life fund consolidator that acquires and manages pools of life and pension policies from closed life funds, but does not write new insurance policies or reinsurance agreements, is actively engaged in an insurance business in a manner contemplated by this exception. If the Group's activities do not constitute active conduct of a qualifying insurance business under this exception, the Company will be considered a PFIC. In addition, because Company income or assets, the income or assets of the Company's subsidiaries, or the Company's activities or the activities of its subsidiaries may change in the future, the Company may in the future be treated as a PFIC.

If the Company were a PFIC in any taxable year during which a US Holder owns Shares or Warrants, a US Holder generally would be subject to substantial additional taxes (including taxation at ordinary income rates and an interest charge) on any "excess distributions" (generally distributions during a taxable year exceeding 125 per cent. of the average amount received during the three preceding taxable years or, if shorter, the taxpayer's holding period) and on any gain realised from the sale or other disposition of Shares or Warrants (regardless of whether the Company continued to be a PFIC). To compute the tax on excess distributions or any gain, (i) the excess distribution or gain would be allocated ratably over a US Holder's holding period, (ii) the amount allocated to the current taxable year and any year before the Company became a PFIC would be taxed as ordinary income in the current year and (iii) the amount allocated to other taxable years would be taxed at the highest applicable marginal rate in effect for each year (i.e., at ordinary income tax rate) and an interest charge would be imposed to recover the deemed benefit from the deferred payment of the tax attributable to each earlier year. Finally, if the Company were a PFIC and any of the Company's direct or indirect subsidiaries also are PFICs, US Holders may also be subject to adverse US federal income tax consequences on deemed distributions from or deemed dispositions of their equity interests in those subsidiaries.

A US Holder may be able to avoid some of the adverse impacts of the PFIC rules described above with respect to Shares by electing to mark the Shares to market annually. The election is available only if the Shares are traded in more than de minimis quantities on a qualified exchange for at least 15 days during each calendar quarter. Any gain from marking the Shares to market or from disposing of them would be ordinary income. Any loss from marking the Shares to market would be recognised only to the extent of mark-to-market gains previously included in income. Loss from marking the Shares to market would be ordinary, but loss on disposing of them would be capital loss except to the extent of mark-to-market gains previously included in income, if any. A mark-to-market election will not apply to any of the Company's subsidiaries that are PFICs even if a shareholder were to make the election for the Shares. Each US Holder should ask its own tax advisor whether a mark-to-market election is available or desirable. A valid mark-to-market election cannot be revoked without the consent of the US Internal Revenue Service (the "IRS") unless the Shares cease to be marketable.

A US Holder would not be able to avoid the tax consequences described above by electing to treat the Company as a qualified electing fund ("QEF") because the Company does not intend to provide shareholders with the information that would be necessary to make a QEF election with respect to the Shares or shares of any Company subsidiary.

A corporation that is a controlled foreign corporation (a "CFC") will generally not be treated with respect to a shareholder as a PFIC during the portion of the shareholder's holding period during which the shareholder is a "10 per cent. US Shareholder" and the corporation is a CFC. A US person is a 10 per cent. US Shareholder if such person owns (directly, indirectly and/or constructively) 10 per cent. or more of the total combined voting power of all classes of shares entitled to vote of such corporation. Therefore, for any year in which the Company is both a PFIC and a CFC, a holder of Company stock that is a 10 per cent. US Shareholder may be subject to the CFC rules and not the PFIC rules with respect to Shares.

2.2 US persons who own 10 per cent. or more of the Company's Shares including through Warrants (or that qualify as RPII Shareholders) may be subject to adverse tax consequences under the controlled foreign corporation rules.

The Company will be a CFC if US Holders that each own (directly, indirectly or by attribution) at least 10 per cent. of the Company's ordinary shares, including through ownership of Warrants, together own more than 50 per cent. (by vote or value) of the Company's ordinary shares, including through ownership of Warrants. For purposes of taking into account certain insurance income, the term CFC also generally includes a foreign insurance company in which more than 25 per cent. of the total combined voting power of all classes of stock or more than 25 per cent. of the total value of all the stock is owned by 10 per cent. US Shareholders. Warrants are generally treated as stock to the extent the result is to treat a person as a 10 per cent. US Shareholder and to treat a foreign corporation as a CFC.

Different rules apply for purposes of taking into account "related person insurance income," or "RPII". RPII is subpart F insurance income attributable to insurance policies or reinsurance contracts where the person that is directly or indirectly insured or reinsured is a RPII Shareholder. A foreign corporation is, subject to certain exceptions, treated as a CFC for RPII purposes if RPII Shareholders collectively own directly, indirectly, or by application of the constructive ownership rules 25 per cent. or more of the stock of the foreign corporation by vote or value. Although there can be no assurances, the Company does not expect that the Company or its subsidiaries will earn RPII.

If the Company is a CFC, a US Holder that is a 10 per cent. US Shareholder on the last day of the Company's taxable year must recognise ordinary income equal to its pro rata share of the Company's net earnings (including capital gains) for the tax year whether or not the Company makes a distribution. The income will be treated as income from sources within the US to the extent it arose from US sources. Earnings on which the US Holder pays tax currently will not be taxed again when they are distributed to the US Holder. A US Holder's basis in its interest in the Company will increase by any amounts the holder includes in income currently and decrease by any amounts not subject to tax when distributed. If the Company is a CFC, (i) the Company would incur US withholding tax on interest received from a related US person, (ii) special reporting rules would apply to directors of the Company and certain other persons and (iii) certain other restrictions may apply. Subject to a special limitation for individual US Holders that have held Shares for more than one year, gain from disposition of Shares recognised by a US Holder that is or recently has been a 10 per cent. US Shareholder will be treated as dividend income to the extent earnings attributed to the Shares accumulated while the US Holder held the Shares and the Company was a CFC. If the Company is a CFC, a 10 per cent. US Shareholder will be subject to the CFC rules rather than the PFIC rules.

3 RISKS RELATED TO THE ORDINARY SHARES AND ORDINARY WARRANTS

3.1 The price of the Ordinary Shares and Ordinary Warrants may experience volatility.

The market price of the Ordinary Shares and Ordinary Warrants could be subject to significant fluctuations due to a change in sentiment in the market regarding the Ordinary Shares and Ordinary Warrants (or securities similar to them), including, in particular, in response to various facts and events, including any regulatory changes affecting the Group's operations, variations in the Group's operating results and/or business developments of the Group's and/or its competitors. Stock markets have from time to time experienced significant price and volume fluctuations that have affected the market prices for securities and which may be unrelated to the Company's operating performance or prospects. Furthermore, the Group's operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the Ordinary Shares and Ordinary Warrants.

3.2 The Company's ability to continue to pay dividends on the Ordinary Shares will depend on the availability of distributable reserves, FSA restrictions and restrictions under the Group's credit facilities.

The Company's ability to pay dividends is limited under Cayman Islands law, in that the Company can only make distributions by way of dividend out of profits or out of a share premium account (subject to a solvency test) and subject to the Articles of Association. As a holding company, the Company's ability to pay dividends in the future is affected by a number of factors, principally its ability to receive sufficient funds from subsidiaries. The payment of cash to the Company by its subsidiaries is, in turn, subject to restrictions, including certain regulatory requirements and the existence of sufficient distributable reserves and cash in the Company's subsidiaries. The ability of these subsidiaries to pay cash to the Company is subject to applicable local laws and regulatory requirements and other restrictions, including, but not limited to, applicable tax laws and covenants in some of the Group's credit facilities (for further information on the restriction of the payments on dividends, see Part XI: "Additional Information—Material Contracts—Credit Facilities"). These laws, regulatory requirements and restrictions could limit the payment of future dividends and distributions to the Company by its subsidiaries, which could restrict the Company's ability to fund other operations or to pay a dividend to holders of the Ordinary Shares.

3.3 The availability of Ordinary Shares for future sales and the existence of certain rights and securities pursuant to which further Ordinary Shares may be required to be issued could depress the share price of the Ordinary Shares and Ordinary Warrants and, in the case of issues of further Ordinary Shares, dilute existing holders.

A number of Ordinary Shares will or may become available for sale in the public markets either immediately following Admission (subject to the occurrence of other events) or following a period of time, including the following:

- In connection with the Acquisition, each of Berggruen Acquisition Holdings II Ltd. and Marlin Equities IV, LLC agreed, subject to certain exceptions, not to sell or otherwise transfer, directly or indirectly, any of its Founders' Shares, or its Class B Shares issued following the Insider Warrant Exchange Invitation until 2 September 2010. Those transfer restrictions may be waived at the option of TDR Capital and Hugh Osmond.
- There exist 52,032,123 Class B Shares which were issued to certain parties at or since the date of the Acquisition and which, following the adoption of the Fourth Articles of Association but prior to Admission, will be re-designated into Ordinary Shares.
- Of the above 52,032,123 Class B Shares there are certain Class B Shares which the Sellers received pursuant to the Purchase Agreements and which are subject to a contractual undertaking and a constitutional restriction on the transfer of such shares for the period of one year from 2 September 2009. The Amended Contingent Consideration Agreement (as described in Part XI: "Additional Information—Material Contracts—Amended Contingent Rights Agreements") and the Fourth Articles of Association (as defined in Part XI: "Additional Information—Memorandum and Articles of Association"), to be approved by Shareholders at the annual general meeting to be held on 23 June 2010 (the "Annual General Meeting" or the "AGM") and the Class Meeting, provide that these restrictions shall be released and such Class B Shares re-designated into Ordinary Shares prior to Admission.
- There exist outstanding redeemable Warrants in the Company (for further information, see Part XI: "Additional Information—Incorporation and Share Capital—Share Capital—Warrants") to purchase an aggregate of 8,169,868 Ordinary Shares in the Company. To the extent they are exercised, the Company will be required to issue up to 8,169,868 additional Ordinary Shares.
- There exist outstanding redeemable Class B Warrants in the Company to purchase an aggregate of 17,360,000 Class B Shares in the Company. To the extent they are exercised, the Company will be required to issue additional Class B Shares, which, if re-designated into Ordinary Shares, will increase the number of Ordinary Shares eligible for sale in the public market. In addition, following Admission, the outstanding Class B Warrants will be exercisable in respect of Ordinary Shares rather than Class B Shares.

- In connection with the Acquisition, various parties received Contingent Rights pursuant to which they would be issued 36,000,000 Ordinary Shares subject to the satisfaction of certain criteria (as described in Part XI: "Additional Information—Material Contracts—Amended Contingent Rights Agreements"). The Company has sought to amend these arrangements. If the amended arrangements are not agreed or approved, the Company will remain obliged to issue up to 36,000,000 Ordinary Shares if the original criteria are met.

- If the amended arrangements in relation to Contingent Rights are agreed and approved by the shareholders at the Annual General Meeting, the Company will be required to issue 32,400,000 Ordinary Shares prior to Admission and a further 3,600,000 Ordinary Shares subject to the satisfaction of certain criteria. The Ordinary Shares which are issued will be subject to contractual undertakings that certain of the holders of such Ordinary Shares will not transfer them to third parties for a period of one year from the date of issue, although such undertakings may be waived by the Company prior to that date. In addition, the Company intends to implement a scrip dividend program, and under the Amended Contingent Rights Agreements certain holders of Contingent Rights will have undertaken to elect for scrip dividends in respect of such Ordinary Shares for a period of 12 months from their issue or until such time as they transfer. In addition, the Company has asked TDR Capital, certain principals of Sun Capital, the Lenders and certain other parties to enter into an agreement pursuant to which such parties undertake disposals of their Ordinary Shares on the terms described in Part XI, "Additional Information—Material Contracts—Amended Contingent Rights Agreements—Orderly market arrangements".

Any increase in the number of Ordinary Shares available for sale could have an adverse effect on the market price of the Ordinary Shares and the Ordinary Warrants as could any sales of Ordinary Shares, or the perception that such sales might occur. In addition, the issuance of Ordinary Shares or Class B Shares will result in dilution to Shareholders' existing holdings.

3.4 The Company has other equity securities in issue in addition to the Ordinary Shares and Ordinary Warrants which may impact the Company's ability to restructure its share capital or issue further Shares or Warrants.

In addition to the Ordinary Shares and Ordinary Warrants, the Company has in issue Class B Shares and Class B Warrants. These securities are described in more detail in Part XI: "Additional Information—Incorporation and Share Capital—Share Capital—Description of the Company's Share Capital and Warrants". Also, a number of parties have rights to be issued with Ordinary Shares in the event that the share price of the Ordinary Shares attains a certain level. These rights are further described in Part XI: "Additional Information—Material Contracts" under "—Contingent Consideration Agreement", "—Contingent Subscription Agreement", and "—Contingent Fee Agreement". The holders of such securities and rights have the benefit of certain protections including, for example, adjustment provisions in the event that the Company makes certain amendments to its share capital.

Subject to the passing of certain of the resolutions to be approved at the Company's Annual General Meeting, including the resolutions to approve the amendment of the Contingent Consideration Agreement, the amendment of the Contingent Fee Agreement, the amendment of the Contingent Subscription Agreement, the amendment of LTIP and the adoption of the Fourth Articles of Association (as those terms are defined in Part XII: "Definitions and Glossary" and, together, the "Amended Contingent Rights Agreements"), (the "Resolutions") and the meeting of the holders of the Class B Shares to approve the Fourth Articles of Association to be held on 23 June 2010 (the "Class Meeting") all Class B Shares will be re-designated to Ordinary Shares. In addition, the rights of certain parties to be issued further Ordinary Shares will be satisfied by the issue of Ordinary Shares to the holders of such rights (for more information on the terms of these arrangements, see Part XI: "Additional Information—Material Contracts—Amended Contingent Rights Agreements"). Following Admission, the holders of Class B Warrants will be entitled to receive Ordinary Shares rather than Class B Shares.

As a result, the Company's stakeholders may have different interests which may impact the Company's ability to restructure its share capital or issue further Shares or Warrants.

3.5 Shareholders in certain jurisdictions may not be able to participate in any future capital raisings or receive scrip dividends.

Although under Cayman Islands law Shareholders do not have pre-emption rights over further issues of Ordinary Shares of the Company or securities convertible into such Ordinary Shares, such rights are expressly provided for in the Fourth Articles of Association. However, securities laws of certain jurisdictions may restrict the Company's ability to allow participation by Shareholders in any future issues of Ordinary Shares and such an issue could dilute the interests of the then existing Shareholders. In particular, holders of Ordinary Shares who are located in the US may not be able to exercise their pre-emption rights unless a registration statement under the United States Securities Act of 1933, as amended (the "US Securities Act") is effective in respect of such rights or an exemption from the registration requirements is available under the US Securities Act. In addition, the Company is prohibited from making any invitation to the public in the Cayman Islands to subscribe for shares in the Company.

The Company, at its AGM, has proposed that the Board be authorised to implement a scrip dividend programme, under which a scrip dividend alternative will be offered to all Shareholders. However, the securities laws of certain jurisdictions may restrict the ability of certain Shareholders to receive a scrip dividend from the Company. For instance, because such a dividend in certain instances may be considered an offer of securities under US federal securities laws, Shareholders located in the US may not be able to receive a scrip dividend unless a registration statement under the US Securities Act is effective in respect of such securities or an exemption from the registration requirements of the US Securities Act is available.

3.6 There is no assurance that an active trading market will develop or that the Company will be included in the FTSE UK Index Series, including the FTSE 250 Index.

As there has been a limited public trading market for the Ordinary Shares and Ordinary Warrants, there can be no assurance that an active trading market will develop or, if one does develop, that it will be maintained. The Directors anticipate that the Company will be included in the FTSE UK Index Series, including the FTSE 250 Index, and expect that inclusion would lead to an active trading market for the Ordinary Shares; however, there can be no assurance that the Company will be included in the FTSE UK Index Series, including the FTSE 250 Index, or that such inclusion would lead to an active trading market. If an active trading market does not develop, the limited liquidity may have an adverse effect on the market price of the Ordinary Shares and holders may have difficulty selling the Ordinary Shares and Ordinary Warrants they hold. Furthermore, if, as the Company intends, the Ordinary Shares and the Ordinary Warrants are delisted from Euronext Amsterdam, this could have a material adverse effect on the liquidity of those instruments.

3.7 The Company is not, and does not intend to become, registered in the US as an investment company under the US Investment Company Act and related rules.

The Company has not, does not intend to, and would most likely be unable to, become registered in the US as an investment company under the US Investment Company Act. The US Investment Company Act provides certain protections to investors and imposes certain restrictions on companies that are registered as investment companies. As the Company is not so registered and does not plan to register, none of these protections is or will be available to investors and none of these restrictions is or will be applicable to the Company. In addition, to avoid being required to register as an investment company under the US Investment Company Act and to avoid violating that Act, the Company has put procedures (i) in its Articles of Association which (x) permit the Company to require any person to whom a transfer of shares or an interest in shares or whose holding of shares or an interest in shares might require registration of the Company as an investment company under the US Investment Company Act to transfer such shares or an interest in such shares and (y) permit the Company to refuse to honour any requests to transfer such shares or an interest in such shares to a person to whom a transfer of shares or an interest in shares or whose holding of shares or an interest in shares might require registration of the Company as an investment company under the US Investment Company Act (see Part XI: "Additional Information—Memorandum and Articles of Association—Fourth amended and restated memorandum and articles of association—Transfer of shares") and (ii) in its Deed Poll which deem a holder of DIs that are owned directly or beneficially by, or otherwise for the benefit of any person to whom a transfer of DIs or whose holding of DIs might require registration of the Company as an investment company under the US Investment Company Act to have requested the cancellation of such DIs and the withdrawal of the shares represented by such DIs (see Part XI: "Additional Information—Material Contracts—Depositary contracts—Deed poll").

PART III: ADMINISTRATION, ADVISERS AND PRESENTATION OF INFORMATION

SECTION A: EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Event	Time and date
Prospectus published	4 June 2010
Annual General Meeting	23 June 2010
Admission and expected commencement of dealings in New Shares on the London Stock Exchange and Euronext Amsterdam and Ordinary Warrants on the London Stock Exchange	8.00 a.m. on 5 July 2010
CREST accounts to be credited in respect of Depositary Interests	8.00 a.m. on 5 July 2010
Despatch of definitive share certificates (where applicable)	Following Admission

Each of the times and dates in the timetable set forth above is subject to change without further notice. References to a time of day are to London Time.

The above is on the assumption that the Amended Contingent Rights Agreements are entered into by all parties thereto, the Resolutions are passed at the AGM, the resolution is passed at the Class Meeting and the Fourth Articles of Association are adopted (for more information, see Part IV: "Information on the Group—Section A: The Company—Capital Structure").

SECTION B: DIRECTORS, SECRETARY, REGISTERED OFFICE AND HEAD OFFICE

The Directors on the board of directors of the Company (the "Board") are as follows as at the date of this Prospectus:

Name	Position
Ron Sandler	Chairman, Non-Executive Director and Nomination Committee Chairman
Jonathan Moss	Group Chief Executive Officer
Simon Smith	Group Finance Director
Alastair Lyons	Senior Independent Non-Executive Director and Audit Committee Chairman
Ian Ashken	Non-Executive Director
René-Pierre Azria	Non-Executive Director
David Barnes	Independent Non-Executive Director
Charles Clarke	Independent Non-Executive Director
Ian Cormack	Independent Non-Executive Director and Remuneration Committee Chairman
Tom Cross Brown	Independent Non-Executive Director
Manjit Dale	Non-Executive Director
Isabel Hudson	Independent Non-Executive Director
Hugh Osmond	Non-Executive Director
David Woods	Independent Non-Executive Director and Risk Committee Chairman

It was announced on 4 May 2010 that Jonathan Yates would succeed Simon Smith as Group Finance Director. It is anticipated that Mr Yates will join the Board on 23 June 2010 and that Mr Smith will resign as a Director at that time and leave employment on 3 October 2010.

Company Secretary	Gerald Watson
Registered office of the Company	c/o Maples Corporate Services Limited PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Principal place of business of the Company	1st Floor, 32 Commercial Street St. Helier Jersey JE2 3RU Channel Islands
Joint Sponsor	Deutsche Bank AG, London Branch ("Deutsche Bank") 1 Great Winchester Street London EC2N 2DB
Joint Sponsor	J.P. Morgan Securities Ltd. ("J.P.Morgan Cazenove") 125 London Wall London EC2Y 5AJ
English and US legal advisers to the Company	Freshfields Bruckhaus Deringer LLP 65 Fleet Street London EC4Y 1HS
Cayman Islands legal advisers to the Company	Walkers Walker House 87 Mary Street George Town Grand Cayman KY1-9001 Cayman Islands

English and US legal advisers to the Joint Sponsors	Clifford Chance LLP 10 Upper Bank Street London E14 5JJ
Reporting Accountants	Ernst & Young LLP 1 More London Place London SE1 2AF
Auditors	Ernst & Young Accountants LLP Wassenaarseweg 80 2596 CZ The Hague The Netherlands
Registrar	The Royal Bank of Scotland N.V. Gustav Mahlerlaan 10 1082 PP Amsterdam
Depositary	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ

SECTION C: PRESENTATION OF INFORMATION

1 RESPONSIBILITY STATEMENT

The Directors, whose names appear on page 41 of this document, Jonathan Yates and the Company accept responsibility for the information contained in this document. To the best of the knowledge of the Directors, Jonathan Yates and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

2 INFORMATION CONCERNING THE SECURITIES TO BE ADMITTED TO TRADING

The Ordinary Shares (ISIN: KYG7091M1096) are admitted to the Official List (by way of a standard listing under Chapter 14 of the Listing Rules) to trading on the London Stock Exchange's main market for listed securities and the Ordinary Shares and the Ordinary Warrants (ISIN: KYG7091M1179) are admitted to listing and trading on Euronext Amsterdam. Application has been made to the UK Listing Authority for the transfer of the Ordinary Shares to a Premium Listing. Application has also been made to the UK Listing Authority for the New Shares and the Ordinary Warrants to be admitted to the Official List of the Financial Services Authority and to the London Stock Exchange for the New Shares and Ordinary Warrants to be admitted to trading on the London Stock Exchange and to Euronext Amsterdam for the New Shares to be admitted to listing and trading on Euronext Amsterdam (together, defined above as "Admission"). Subject to the Amended Contingent Rights Agreements being entered into by all parties thereto, the Resolutions being passed at the AGM, the resolution being passed at the Class Meeting and the Fourth Articles of Association being adopted, it is expected that Admission will become effective and that dealings in the New Shares and Ordinary Warrants will commence on 5 July 2010. For more information, see Part IV: "Information on the Group—Section A: The Company—Capital Structure". The currency of the New Shares and the Ordinary Warrants will be euros, but quoted in pounds sterling on the London Stock Exchange. No application is currently intended to be made for the Ordinary Shares or the Ordinary Warrants to be admitted to listing or dealt with on any other exchange.

3 CONTENTS AND DISTRIBUTION OF THE PROSPECTUS

Recipients of this Prospectus may not reproduce or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than in connection with Admission. Such recipients of this Prospectus agree to the foregoing by accepting delivery of this Prospectus.

Persons should rely only on the information in this Prospectus. No person has been authorised to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company, the Directors or the Joint Sponsors.

Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 5:23 of the DFSA and/or section 87G of FSMA and paragraph 3.4.1 of the Prospectus Rules, neither the delivery of this Prospectus nor any subscription or sale made under this Prospectus shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Company or the Group taken as a whole since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

The contents of this Prospectus should not be construed as legal, financial, business or tax advice. Each prospective investor should consult his or her own legal adviser, financial adviser or tax adviser for legal, financial, business or tax advice in relation to any purchase or proposed purchase of Ordinary Shares or Ordinary Warrants.

The Ordinary Shares and Ordinary Warrants are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under applicable securities laws and regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

None of the Company, the Directors, Jonathan Yates, the Selling Shareholders or the Joint Sponsors is making any representation to any purchaser of the Ordinary Shares or Ordinary Warrants regarding the legality of an investment by such purchaser.

The distribution of this Prospectus in certain jurisdictions may be restricted by law. No action has been or will be taken by the Company, the Selling Shareholders, or the Joint Sponsors to permit a public offering of the Ordinary Shares or Ordinary Warrants or to permit the possession or distribution of this Prospectus (or any other offering or publicity materials or application form(s) relating to the Ordinary Shares or Ordinary Warrants) in any jurisdiction where action for that purpose may be required. Persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdictions.

This Prospectus should be read in its entirety.

4 PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Prospectus, unless otherwise stated, the term "Group" refers to the Company and its consolidated subsidiaries; the terms "Original Pearl Business" or "OPB" refer to PGH (LCA) Limited ("LCA"), PGH (LCB) Limited ("LCB"), PGH (TC1) Limited ("TC1"), PGH (TC2) Limited ("TC2"), Opal Re and their combined subsidiaries; and the term "Resolution Group" refers to Resolution and its consolidated subsidiaries. Control by any of these companies is normally evidenced when any such company owns, either directly or indirectly, more than 50 per cent. of the voting rights of another company's share capital or is able to govern the financial and operating policies so as to benefit from its activities.

Unless otherwise indicated, financial information in this Prospectus has been prepared on the basis set out in Note 1 of the consolidated financial statements for each of the Company and Resolution and the combined financial statements for OPB, in Part IX: "Financial Information and Information Incorporated by Reference" of this Prospectus.

The consolidated financial information included in this Prospectus relates to each of the Company and Resolution, and the combined financial information relates to OPB. The Company, which was incorporated as a special purpose acquisition company in 2008, acquired OPB in August 2009. At the time of its acquisition by the Company, OPB comprised: (i) LCA and LCB and their subsidiaries, which include the Pearl Life Companies (as defined below in Part IV: "Information on the Group—Section A: The Company—History—Acquisition") and their affiliates, (ii) Opal Re, which was established in 2007 and (iii) the Resolution Group, which OPB acquired in May 2008. On account of its structure, OPB did not operate under a single holding company prior to its acquisition by the Company and did not form a single group for financial reporting purposes. Consequently, consolidated financial information has never been prepared for OPB. In the absence of such consolidated financial information, the Group has prepared combined financial information covering the holding companies and operating subsidiaries that comprised OPB.

The audited consolidated financial information with respect to the Company for the period from 2 January 2008 to 31 December 2008 and for the year ended 31 December 2009, contained in Part IX: "Financial Information and Information Incorporated by Reference", has been prepared in accordance with International Financial Reporting Standards as adopted for use in the EU ("IFRS").

The audited combined financial information with respect to OPB for the years ended 31 December 2007, 2008 and 2009, contained in Part IX: "Financial Information and Information Incorporated by Reference", has been prepared in accordance with IFRS as adopted for use in the EU, save as described in Part VIII: "Operating and Financial Review—Basis of Presentation—Components of the selected historical financial information—Financial information on OPB".

The audited consolidated financial information with respect to Resolution for the years ended 31 December 2007 and 2008, contained in Part IX: "Financial Information and Information Incorporated by Reference", has been prepared in accordance with IFRS as adopted for use in the EU.

Unless otherwise indicated, financial information set out in the summary of this Prospectus has been extracted without material adjustment from the financial information set out in Part IX: "Financial Information and Information Incorporated by Reference".

Operating profit as presented by OPB and the Group is a non-generally accepted accounting principles ("GAAP") financial measure and is not a measure of financial performance under IFRS. Each of OPB and the Group presents operating profit because it is less affected than IFRS measures of performance by short-term external market impacts, and thus in the view of both OPB and the Group it provides a better basis for assessing trends in their respective operational performance over time. Operating profit represents the normalised long-term investment return in that it excludes short-term fluctuations in investment returns and other items considered to be non-operating by management. Operating profit should not be considered in isolation as an alternative to profit or loss before tax or other data presented in the financial statements for OPB and the Group as indicators of financial performance. Because it is not determined in accordance with IFRS, operating profit as presented by OPB and the Group may not be comparable to other similarly titled measures of performance of other companies. (For further information, see Part VIII: "Operating and Financial Review".)

5 CURRENCIES

In this Prospectus references to "pounds sterling", "£", "pence" or "p" are to the lawful currency of the UK, references to "US Dollars", "US$", "$", "cents" or "¢" are to the lawful currency of the US, references to "Euro", "euro", "€" or "e" are to the single currency of those relevant adopting member states of the EU.

Unless otherwise indicated, the financial information contained in this Prospectus has been expressed in pounds sterling. The functional currency of the Company is pounds sterling, as is the reporting currency of the Group. Transactions not already measured in pounds sterling have been translated into pounds sterling in accordance with the relevant provisions of IAS21. On consolidation, income statements of subsidiaries for which pounds sterling are not the functional currency are translated into pounds sterling, the presentation currency for the Company, at average rates of exchange. Balance sheet items are translated into pounds sterling at period-end exchange rates. These translations should not be construed as representations that the relevant currency could be converted into pounds sterling at the rate indicated, at any other rate or at all.

Indicative exchange rates of the pound sterling against the US Dollar and the Euro comprising the average rate used for income statements and the specific date used for balance sheet information are shown below:

Indicative exchange rates of the pound sterling against the US Dollar[1]

Period	Period-end	Average	High	Low
2006	1.9588	1.8436	1.9848	1.7188
2007	1.9850	2.0019	2.1161	1.9185
2008	1.4593	1.8524	2.0398	1.4354
2009	1.6148	1.5659	1.7017	1.3702

(1) Source: Bloomberg

As at 5:00 p.m. British Summer Time on 3 June 2010, being the latest practicable date prior to publication of this Prospectus, the exchange rate of the pound sterling against the US Dollar was 1.46160.

Indicative exchange rates of the pound sterling against the Euro[2]

Period	Period-end	Average	High	Low
2006	1.4843	1.4669	1.4993	1.4239
2007	1.3611	1.4615	1.5300	1.3534
2008	1.0461	1.2575	1.3720	1.0200
2009	1.1274	1.1229	1.1850	1.0445

(2) Source: Bloomberg

As at 5:00 p.m. British Summer Time on 3 June 2010, being the latest practicable date prior to publication of this Prospectus, the exchange rate of the pound sterling against the Euro was 1.19862.

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

6 FORWARD-LOOKING STATEMENTS

This Prospectus includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group business, results of operations, financial position, liquidity, prospects, growth, strategies and the asset management business.

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

- materially adverse changes in economic or industry conditions generally or in the markets served by the Group;
- strength of the markets in which assets are invested;
- change in costs; and
- other factors discussed in Part II: "Risk Factors" and Part VIII: "Operating and Financial Review".

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements in this Prospectus reflect the Group's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's business, results of operations, financial condition, liquidity, prospects, growth, strategies and the asset management business. Investors should specifically consider the factors identified in this Prospectus, which could cause actual results to differ, before making an investment decision. Subject to the requirements of the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules, the Euronext Amsterdam Rules and the rules promulgated under DFSA, the Company undertakes no obligation publicly to release the result of any revisions to any forward-looking statements in this Prospectus that may occur due to any change in the Company's expectations or to reflect events or circumstances after the date of this Prospectus.

The cash flow targets for the years 2010 to 2019 set out in Part VIII: "Operating and Financial Review" are based on the Group's current assumptions and estimates. Changes in economic and other conditions may result in the actual cash flows being different to those targeted. Further information regarding risks which may affect the financial condition and prospects of the Group are set out in the Part II: "Risk Factors".

7 SOURCES OF INDUSTRY DATA

Except as otherwise indicated, all industry data regarding the UK insurance and pensions industry in this Prospectus is from publications prepared by the Association of British Insurers, the trade association for the UK insurance industry, and by Cazalet Consulting. The Company has not independently verified the industry data in this Prospectus. This industry data has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by the relevant third parties, no facts have been omitted which would render the industry data inaccurate or misleading.

8 REFERENCES TO DEFINED TERMS

Certain terms used in this Prospectus, including certain capitalised terms and certain technical and other terms are defined in Part XII: "Definitions and Glossary".

PART IV: INFORMATION ON THE GROUP

SECTION A: THE COMPANY

1 HISTORY

Phoenix Group Holdings (defined above as the "Company"), previously named Liberty Acquisition Holdings (International) Company and then Pearl Group, is a company incorporated on 2 January 2008 under the laws of the Cayman Islands as an exempted company with limited liability, under registration number 202172. The Company was formed as a non-operating special purpose acquisition company by Berggruen Acquisition Holdings II Ltd. and Marlin Equities IV, LLC to acquire one or more operating businesses with principal activities outside North America. Berggruen Acquisition Holdings II Ltd. of 9-11 Grosvenor Gardens, London SW1W 0BD, UK, and Marlin Equities IV, LLC of 555 Theodore Fremd Avenue, Suite B-302, Rye, New York 10058, US, do not have any functions in the Group other than being Shareholders.

Units of the Company, comprising Ordinary Shares and Ordinary Warrants, were initially admitted for listing and trading on Euronext Amsterdam on 6 February 2008. The units ceased to exist as a separate security effective as of 14 March 2008 and the Ordinary Shares and Ordinary Warrants began to trade separately on 17 March 2008. The Ordinary Shares of the Company were admitted to the Official List of the Financial Services Authority and to trading on the London Stock Exchange on 12 November 2009.

1.1 Acquisition

On 2 September 2009, the Company acquired the entire issued share capital of (i) LCA and LCB, which were established at the time of the acquisition of Pearl Assurance, London Life, National Provident Life and NPI (collectively, the "Pearl Life Companies") and their respective affiliates by, amongst others, TDR Capital Nominees Limited and its various related entities ("TDR Capital") and certain principals of Sun Capital Partners ("Sun Capital"), (ii) TC1 and TC2, which were established at the time of the acquisition of the Resolution Group by OPB and (iii) Opal Re (the "Acquisition"). LCA, LCB, TC1, TC2 and Opal Re, together, are defined as the "Acquired OPB Companies". The Acquired OPB Companies, together with their respective subsidiaries, are defined as the "Original Pearl Business" or "OPB".

(a) Background to Acquisition

OPB was established in April 2005 in connection with the £1.1 billion acquisition from HHG plc of the Pearl Life Companies and their affiliates by, amongst others, TDR Capital and Sun Capital. In May 2008, OPB acquired the Resolution Group for £5 billion and simultaneously sold on certain assets and companies held by Resolution (the "On-Sold Resolution Assets") to The Royal London Mutual Insurance Society Limited ("Royal London") for £1.3 billion.

In November 2008, OPB informed the FSA that it had become aware that, as a result of market volatility, OPB's capital resources were such that Pearl Group Holdings (No.2) Limited (previously Pearl Group Limited) ("PGH2") was in technical breach of certain of the FSA's rules and principles regarding the amount of credit that can be taken for Tier 2 capital in relation to Tier 1 capital. This technical breach was rectified by reclassifying certain Tier 2 securities so that they could be counted as Tier 1 capital, and no new funds were required. However, as a result of the technical breach, the FSA, which has broad powers under FSMA, imposed an own initiative variation of permission ("OIVOP") notice. This notice prevented the regulated entities in OPB from making certain payments, moving economic resources around or outside the Group, or undergoing a restructuring, unless the FSA gave its prior approval. A further result of the technical breach of the FSA's capital requirements was that the FSA exercised its powers under section 166 of FSMA and appointed KPMG to prepare a report on the financial soundness of OPB, known as a "Section 166 Skilled Persons" Report. In its report KPMG concluded, among other things, that without management initiatives being undertaken in 2010 and 2011, OPB would experience a shortfall in the level of cash available to meet its principal repayment and interest payment obligations. The FSA also commissioned an additional Section 166 Skilled Persons' Report to review and report on the effectiveness of PGH2's board and its overall governance and decision-making structure, including the effectiveness of committees and subsidiary boards. The report was undertaken by Allen & Overy LLP and made a number of recommendations, the majority of which the Group has implemented. The remaining recommendations are in the process of being implemented.

In parallel with these events, Sun Capital and TDR sought to identify sources of additional capital for OPB. As a consequence an approach was made to a number of the shareholders of the Company which resulted in discussions culminating in an offer by the Company for the Acquired OPB Companies.

(b) Completion of Acquisition

On 3 July 2009, the Proxy Statement was posted to shareholders of the Company to seek approval for, among other things, the Acquisition. The proposed resolutions were passed by the shareholders at a meeting held on 24 July 2009, and the Acquisition was completed on 2 September 2009 when the Company changed its name to Pearl Group. As a result of the Acquisition and the associated Debt Restructurings, the Group/OPB's payment obligations in 2009, 2010 and 2011 were materially reduced. In addition, on completion of the Acquisition, the FSA lifted the OIVOP notice that it had imposed in relation to OPB.

The Group that was created on completion of the Acquisition does not write any new policies (other than increments to existing policies and annuities for current policyholders when their policies mature) and is therefore focused on the efficient "run off" of the Group's policies, seeking to maximise economies of scale and generating capital efficiencies through internal fund mergers and other operational improvements.

Further details on the Acquisition can be found in Part XI: "Additional Information—Material Contracts—Pearl SPA" and Part XI: "Additional Information—Material Contracts—Opal Re SPA".

1.2 Debt restructuring

OPB's bank debt was restructured in connection with the closing of the Acquisition. On 2 September 2009, the date of legal completion of the Acquisition, certain external debt of OPB was restructured, specifically the £905 million Pearl Facility, the £2,260 million Impala Facility and the Royal London PIK Notes and PIK Facility. Of the £825 million outstanding under the £905 million Pearl Facility, £325 million was assigned to the Company in exchange for £75 million consideration; £75 million of the remaining £500 million was converted into the Lender Loan Notes, comprising (i) £37.5 million of principal loan notes of LCB and (ii) £37.5 million of principal loan notes of LCA (collectively, the "Lender Loan Notes"), and the terms of the remaining £425 million facility were amended. The terms of the £2,260 million Impala Facility were also amended. Of the £350 million Royal London PIK Notes and PIK Facility outstanding (comprising principal and capitalised interest), £250 million was assigned to the Company in exchange for the issue to Royal London of 1.5 million Class B Shares and 12.36 million Class B Warrants. The terms of the remaining £100 million PIK Notes and PIK Facility were then amended. The restructuring formed an integral part of the Acquisition and the effect of the restructuring has been incorporated in determining the fair values of certain liabilities at the Acquisition date.

Further details on the Debt Restructuring is provided in Part XI: "Additional Information—Material Contracts—Credit Facilities".

2 CAPITAL STRUCTURE

As at the date of this Prospectus there are the following classes of shares, warrants or contingent rights over shares:

- Ordinary Shares;
- Warrants over Ordinary Shares: these were issued alongside the Ordinary Shares at the time of the Company's initial public offering and they are currently traded on Euronext Amsterdam;
- Class B Ordinary Shares (the "Class B Shares"): these were issued as part of the Acquisition to the Sellers, the acquired companies, certain PGH2 affiliates, Royal London and certain other parties;
- Warrants over Class B Shares (the "Class B warrants"): these were issued as part of the Acquisition to the Lenders and Royal London; and
- Contingent Rights (as defined below in "—Reasons for the Premium Listing") over Ordinary Shares: these were issued to the Sellers of the Acquired Companies, the Founders and the Sponsors, or their designates, and the Lenders.

Subject to the Amended Contingent Rights Agreements being entered by all parties thereto, the Resolutions being passed at the AGM, the resolution being passed at the Class Meeting and the Fourth Articles of Association being adopted:

- All Class B Shares will be re-designated into Ordinary Shares;
- Class B Warrants will, following Admission, be warrants over Ordinary Shares; and
- Contingent Rights over Ordinary Shares shall be satisfied by the allotment and issue of Ordinary Shares to the holders of such Contingent Rights, together with certain residual rights left outstanding, as further described in Part XI: "Additional Information—Material Contracts—Amended Contingent Rights Agreements".

The following table sets out information on the Company's classes of Shares, Warrants and Contingent Rights over Shares:

	As at the date of this Prospectus	Immediately following Admission[3]
Shares in issue		
Ordinary Shares	80,430,732	164,862,855
Class B Shares	52,032,123	—
	132,462,855	**164,862,855**
Ordinary Share Warrants		
Ordinary Warrants	**8,169,868**	**8,169,868**
Class B Share Warrants		
Lenders Warrants[1]	5,000,000	5,000,000
Royal London Warrants[1]	12,360,000	12,360,000
	17,360,000	**17,360,000**
Contingent Rights over Shares[2]		
Sun Capital/TDR Capital/Selling Shareholders (Contingent Rights)	26,500,000	2,650,000
Lenders (Contingent Rights)	8,500,000	850,000
Contingent Subscription Agreement (Contingent Rights)	1,000,000	100,000
	36,000,000	**3,600,000**
Shares authorised for issue under employee incentive plans	**2,823,000**	**2,823,000**
Total Warrants and Contingent Rights over Shares and Shares authorised for issue under employee incentive plans outstanding	**64,352,868**	**31,952,868**

(1) Prior to the Premium Listing the Lender Warrants and Royal London Warrants are Class B Warrants and following the Premium Listing they will become Warrants in respect of Ordinary Shares.

(2) Immediately following Admission, the outstanding Contingent Rights will be subject to the rights described in the Amended Contingent Rights Agreements. For more information, see Part XI: "Additional Information—Material Contracts—Amended Contingent Rights Agreements".

(3) Subject to the Amended Contingent Rights Agreements being entered into by all parties thereto, the Resolutions being passed at the AGM, the resolution being passed at the Class Meeting and the Fourth Articles of Association being adopted.

This Prospectus has been prepared in connection with Admission only. In the event that the Resolutions are not passed at the AGM, the resolution is not passed at the Class Meeting, the Amended Contingent Rights Agreements are not entered into or the Fourth Articles of Association are not adopted, the Premium Listing and Admission will not occur, although certain Class B Shares may be re-designated into an equivalent number of Ordinary Shares at the option of the holders and the Company would intend to make an application for such Ordinary Shares to be admitted to (i) a standard listing on the Official List and trading on the main market of the London Stock Exchange and (ii) listing and trading on Euronext Amsterdam, and to apply for the Ordinary Warrants to be admitted to a standard listing on the Official List and trading on the main market of the London Stock Exchange, in each case following publication of a new prospectus in respect thereof.

Neither the Class B Shares nor the Class B Warrants are listed or traded on Euronext Amsterdam. It is not intended that the Class B Shares or any of the Class B Warrants be listed on the London Stock Exchange.

Further details on the Shares and the Warrants can be found in Part XI: ''Additional Information—Incorporation and Share Capital—Share Capital—Description of the Company's Share Capital and Warrants''.

Further information on the Contingent Rights can be found in Part XI: ''Additional Information—Material Contracts—Contingent Consideration Agreement'', ''—Contingent Subscription Agreement'' and ''—Contingent Fee Agreement''.

3 REASONS FOR THE PREMIUM LISTING

The Directors believe that the Premium Listing of the Ordinary Shares and inclusion in the FTSE UK Index Series, including the FTSE 250 Index, if achieved, will assist in raising the business profile of the Company, broadening analyst coverage of the Company and increasing the attractiveness of its shares to a wider group of investors. As a consequence, the Directors also believe that this will lead to increased liquidity of the Ordinary Shares, which will help to support future strategic objectives. The Directors further believe that the Premium Listing has acted as a catalyst in reducing the complexity of the Group's capital structure, providing investors with a simpler and more certain basis for valuation going forward.

In conjunction with the move from a standard listing to the Premium Listing, the Company intends to delist the Ordinary Shares from Euronext Amsterdam, subject to consent from Euronext Amsterdam. Providing the Premium Listing becomes effective, the delisting of the Ordinary Shares from Euronext Amsterdam is expected to become effective in the first half of 2011.

4. TDR CAPITAL AND SUN CAPITAL

TDR Capital and principals of Sun Capital (''the Sellers'') have confirmed to the Company the issue of the following joint statement: ''We are pleased that negotiations over the contingent rights have now been successfully concluded. We have each been investors in Phoenix since April 2005. We fully intend to remain supportive shareholders for the long-term and have no current intention to sell any of our shares in Phoenix. We continue to see tremendous potential in the Company and look forward to an exciting future with the Premium Listing and prospective UK index inclusion providing access to a broader range of investors and allowing Phoenix to highlight its unique investment proposition in the UK market.''

5. AMENDED CONTINGENT RIGHTS AGREEMENTS

As part of the Acquisition, the Company entered into the Contingent Consideration Agreement, the Contingent Fee Agreement and the Contingent Subscription Agreement pursuant to which third parties, under each of these agreements, received the right to receive in aggregate up to 36,000,000 Ordinary Shares (subject to certain adjustments) on satisfaction of specified criteria (the ''Contingent Rights'') (for more information, see Part XI: ''Additional Information—Material Contracts—Contingent Consideration Agreement'', ''—Contingent Subscription Agreement'' and ''—Contingent Fee Agreement'').

These Contingent Rights comprise dilutive instruments, which need to be restructured in order for the Company to be eligible to achieve the Premium Listing. The Company has made an offer to the Contingent Rights holders to enter into the agreements with these parties (the ''Amended Contingent Rights Agreements''), the material terms of which are set out below and this is the basis on which the Company is seeking approval at the AGM.

- The Company will issue to each holder of Contingent Rights nine Ordinary Shares for every ten Ordinary Shares the (''Initial Shares'') that such holder would receive on crystallisation of the Contingent Rights;
- the right to receive shares under the Contingent Rights shall be cancelled; and
- the holders of the Contingent Rights shall have the right to receive a further 3,600,000 Ordinary Shares in aggregate if a party or parties acting in concert obtain more than 50 per cent. of the Ordinary Shares of the Company or an event occurs which has an equivalent effect or the Company disposes of substantially all its assets within three years of the date of Admission.

Certain of the Contingent Rights holders have also been asked to enter into certain orderly market arrangements with the Company in relation to the Ordinary Shares they will be interested in following Admission (for further information, see Part XI: ''Additional Information—Material Contracts—Amended Contingent Rights Agreements— Orderly market arrangements'').

For a description of the proposed new arrangements with the holders of the Contingent Rights, see Part XI: ''Additional Information—Material Contracts—Amended Contingent Rights Agreements—Amended Contingent Consideration Agreement'', ''—Contingent Subscription Agreement'' and ''—Contingent Fee Agreement''.

The Amended Contingent Rights Agreements (if executed) will be conditional upon, among other things:

(i) all of the conditions to the Premium Listing, other than the issue of the Initial Shares thereunder, being satisfied or waived; and

(ii) the approval of the Shareholders of the Company by ordinary resolution.

As part of the proposed Amended Contingent Rights Agreements certain of the holders of the Contingent Rights will also undertake for a period of 12 months or until they transfer the Ordinary Shares, to elect to receive any dividend declared or paid by the Company in Ordinary Shares pursuant to a scrip dividend programme which the Company intends to implement and for which it is seeking Shareholder approval at the AGM. If a dividend is declared or paid in respect of the period during which the holders of Contingent Rights will have agreed to take such dividend in the form of scrip dividend, but is declared or paid after the period then such holders shall take such dividend in cash and scrip in proportion to the relevant time periods. In addition, they will undertake under the Amended Contingent Rights Agreements (if executed) not to transfer any of the Ordinary Shares they receive for a period of 12 months except for certain permitted transfers (described in Part XI: ''Additional Information—Material Contracts—Amended Contingent Rights Agreements'').

As part of the Amended Contingent Rights Agreements and in further consideration for the cancellation of the Contingent Rights, if the Amended Contingent Rights Agreements are executed certain of the holders of the Contingent Rights have required the Company to agree, and the Board have agreed in these circumstances to amend the sale and purchase agreements pursuant to which OPB were acquired, so that the rights of the parties to make claims will cease (other than in connection with the obligations of the Sellers not to compete with the Company and not to solicit employees).

SECTION B: THE GROUP

1 BUSINESS OVERVIEW

The Group is a closed life assurance fund consolidator that specialises in the management and acquisition of closed life and pension funds and operates primarily in the UK. Opal Re, a direct subsidiary of the Company, is a Bermudian reassurance company that reinsures risk only for the Pearl Life Companies. Measured by total assets, the Group is the largest UK consolidator of closed life assurance funds. The Group does not write any new policies (other than increments to existing policies and annuities for current policyholders when their policies mature) and is therefore focused on the efficient "run off" of the Group's policies, seeking to maximise economies of scale and generating capital efficiencies through internal fund mergers and other operational improvements. The Group has two core business segments: life assurance (including its management services operations) – referred to as Phoenix Life; and asset management – referred to as Ignis Asset Management.

The Group has eight operating life companies which hold policyholder assets, referred to herein as the "Phoenix Life Companies":

- Phoenix Life Limited;
- Phoenix Pensions Limited ("Phoenix Pensions");
- Pearl Assurance plc ("Pearl Assurance");
- London Life Limited ("London Life");
- Phoenix and London Assurance Limited ("Phoenix & London Assurance");
- NPI Limited ("NPI");
- National Provident Life Limited ("National Provident Life"); and
- Scottish Mutual International Limited (Ireland) ("Scottish Mutual International").

Pearl Assurance, London Life, National Provident Life and NPI are referred to herein as the "Pearl Life Companies". Phoenix Life Limited, Phoenix & London Assurance, Phoenix Pensions and Scottish Mutual International are referred to herein as the "Impala Life Companies". Together, the Pearl Life Companies and the Impala Life Companies are referred to herein as the "Phoenix Life Companies". These companies have a diversified mix of long-term business, with policyholder liabilities split approximately 53 per cent. with profit, 28 per cent. non profit and 20 per cent. unit linked as at 31 December 2009.

The Group's two principal management service companies, Pearl Group Services Limited ("PGS") and Pearl Group Management Services Limited ("PGMS"), aim to provide all administrative services required by the Group's life companies (or manage such provision through outsourcing arrangements), including policy administration, information technology, finance and facility management services. It is anticipated that PGS and PGMS will be further integrated in due course.

Ignis Asset Management is the Group's asset management business, providing asset management and asset and liability management services to the Group's life companies as well as a third party client base of retail and institutional investors. Ignis Asset Management had £66.9 billion of assets under management as at 31 December 2009, including £62.8 billion of the Group's and the Phoenix Life Companies' assets (including £2.7 billion of Pearl Group Staff Pension Scheme and PGL Pension Scheme assets) and £4.1 billion of third party assets. Ignis Asset Management includes the entities of Ignis Asset Management Limited, Ignis Investment Services Limited, Ignis Fund Managers Limited and Ignis Investment Management Limited (previously Axial Investment Management Limited ("Axial"), which was, until the fourth quarter of 2009, a separate business). For more information, see "—Structure of the Group" of this Part IV.

As at 31 December 2009, the Group had MCEV of £1,827 million, total assets under management of approximately £66.9 billion and approximately 6.5 million policyholders.

2 HISTORY OF THE GROUP

The Company is the holding company of the Group and was incorporated as a special purpose acquisition company in 2008. The Company acquired OPB in September 2009. At the time of its acquisition by the Company, OPB comprised: (i) LCA and LCB and their subsidiaries, which include the Pearl Life Companies and their affiliates, (ii) Opal Re, which was established in 2007 and (iii) the Resolution Group, which OPB acquired in May 2008. The history of the Group is described in detail in Part VIII: "Operating and Financial Review—Basis of Presentation—Structure and history of the Group".

3 STRENGTHS AND STRATEGY OF THE GROUP

3.1 Strengths

The Directors believe that the Group's key strengths are as follows:

(a) As a fund closed to new business, the Group has high visibility on its cash flows over the long-term due to the well seasoned nature of the book.

The Group's closed life funds provide predictable fund maturity and liability profiles, generating expected long-term cash flows resulting in a highly cash generative business supporting distributions to shareholders and payment of outstanding debt obligations. The Directors believe that the Group's expected long-term cash flows provide strong cover for interest payments. As closed life funds have no new business function, the Group does not incur the costs of running sales and marketing or customer acquisition divisions and does not need to hold capital to support the writing of new policies. Instead, the largest part of the costs of the Group's closed funds are recurring expenses. In addition, the Group, being a closed fund business, is not subject to operational risks relating to the mis-selling and administration of new policies. Most of the Group's closed life funds have been closed for at least five years.

The Group's cash flows are generated from the interest earned on capital, policyholder charges and management fees earned on assets (to the extent that they exceed expenses). Although the impact of the Group's participation in investment returns is not predictable, investment risks are mainly borne by policyholders in accordance with the terms of the relevant policies. In addition, as the life companies' policies run off, excess capital supporting these liabilities can be released from the life companies to their holding company shareholders. The predictable stream of profits from the run-off of the closed life funds provides certainty of tax relief on debt interest. During 2009, UK Holding Companies (as defined in Part VIII: "Operating and Financial Review—Liquidity and Capital Resources") cash inflows were £716 million (including cash equivalents).

The Directors believe that the Group's business model provides a robust and simple basis for investors to value the Group compared to "open" life assurers.

(b) The Group is the largest closed fund consolidator in the UK, with a simple and scalable business model, allowing it to benefit from economies of scale, diversification benefits and the ability to save costs both internally and through outsourcing arrangements.

With over £66 billion of assets under management and more than 6.5 million policyholders as at 31 December 2009, the Group is the largest UK closed life fund consolidator, is a top five UK life group measured by reserves and a top 20 UK asset manager measured by assets under management. The Directors believe that this scale, together with its track record and expertise in creating value through integration and financial management, including through realising synergies from previous acquisitions and its focus on improving outcomes for policyholders of closed funds, positions the Group as a leading consolidator of closed life funds in the future and a market leader in UK closed life fund run-off, resulting in a significant value creation opportunity. In addition, Ignis Asset Management offers the Group further value through potential future consolidation in the UK asset management industry.

The Directors believe the cost structure provides additional value and scalability, by using outsourced service providers ("OSPs") to match its cost base to the run-off profile of the policies held within the Group's closed funds, as OSPs' charges are generally based on a variable, per policy cost structure. The Directors believe that on-going site rationalisations will offer further cost savings. The Directors also believe additional economies of scale and, in turn, additional surplus cash flows, can be generated through the sharing of services across a greater number of funds and policies.

The Group seeks to manage the level of costs and required capital by combining life funds, allowing for greater diversification of risks. Fund combinations also create potential tax synergies by utilising the differing tax positions of each fund, allocating unused tax losses in one fund to offset profits in another.

The Group also seeks to ensure that policyholder and shareholder interests are closely aligned.

(c) There is significant opportunity to grow embedded value and cash flows through further operational and financial improvements within its existing operations.

As a result of management actions taken in 2009, the Group generated a £155 million increase in embedded value and a £275 million increase in UK Holding Companies cash inflows. These actions included the transfer of certain businesses of Scottish Provident Limited and Scottish Mutual

Assurance Limited ("SMA") to Phoenix Life Limited, the restructuring of Phoenix & London Assurance, the renegotiation of certain outsourcing agreements and the resolution of other legacy issues including relating to annuitant survival and reinsurance recoveries.

The Directors believe that there are substantial opportunities to further increase both embedded value and cash inflows in UK Holding Companies through additional actions. One source of further value will be combining life funds, which generally allows the Group to achieve greater diversification of risks and therefore reduces the overall capital requirements. Fund mergers also create potential tax synergies by utilising the differing tax positions of each fund, through allocating unused tax losses in one fund to offset profits in another. Further actions that can create value include the reduction of operational risk and the de-risking of investment strategy. The Directors believe that significant value should be capable of being created through such financial management. The Group is on track to deliver its targeted management actions for the year ending 31 December 2010 resulting in cash flow acceleration of £225 million over and above its target of £400 million to £500 million recurring cash flows and increases in embedded value of £145 million.

(d) The Group's asset and liability management capability helps to protect and enhance policyholder and shareholder returns.

The Group aims to manage its assets and liabilities to ensure a prudent approach to risk. The asset and liability management capability of the Group provides the Group with the ability to use capital efficiently whilst having more control over management of investment and market risk for both policyholders and shareholders. This includes the matching of asset cash flows and liability cash flows to reduce capital requirements. In particular, the release of capital through the elimination of unrewarded risk can enable higher risk adjusted returns.

(e) The dedicated focus of Ignis Asset Management offers the Group improved investment management performance on the Group's life company assets as well as generating fees from its retail and institutional asset management operations.

The Directors believe that the dedicated expertise within Ignis Asset Management enables the Group to manage its assets to generate incremental returns to policyholders and shareholders. During 2009, Ignis Asset Management outperformed on the majority of its benchmarks with regard to its management of the Group's life company assets.

In addition, the Directors believe that Ignis Asset Management has a sufficiently diverse range of products to take advantage of changing market conditions. Ignis Asset Management generates its fees from a wide range of underlying asset classes, including cash, government debt securities, property, equities and corporate debt, reducing their exposure to decreases in market values of specific asset classes. Ignis Asset Management also has an established presence in the third party asset management market in both the UK retail and institutional channels and internationally, with over £400 million of net inflows in 2009.

3.2 Strategy

The Group's mission is to improve returns for policyholders and deliver value for shareholders. The Group intends to achieve this by realising its vision to be recognised as "the industry solution" for the safe, innovative and profitable decommissioning of closed life funds in the UK.

The Company acquired OPB in September 2009. Since that point, the Group has undertaken a detailed review of its goals and strategies. The review concluded that the core business goals of OPB remain appropriate and that the Group has a good platform to execute the strategies it has developed to achieve its goals.

The Group's goals are to:

(a) Maximise business performance and value

Maximising business performance and value principally means delivering predictable long-term cash flows, increasing the MCEV within Phoenix Life and increasing profits within Ignis Asset Management. The Group intends to achieve these goals through the implementation of a single life company structure, the enhancement of Group-wide risk and capital management and the growth of its third party asset management franchise.

(b) *Improve customer outcomes*

Improving customer outcomes means demonstrating an understanding of customer needs, delivering consistent industry-standard customer service, providing easy access to information, communicating to customers clearly, enhancing policyholder security and improving policyholder returns and growth opportunities. The Group's strategies to achieve these outcomes are to extend customer research and service improvement programmes, to optimise estate distribution, to extend the product performance review programme and to maintain strong capital policies.

(c) *Sustain a robust and scalable business model*

This is achieved through the improvement of the Group's long-term ability to service debt, optimising its capital and debt structures, operational excellence at Phoenix Life and Ignis Asset Management and matching its shareholder register to the long-term ambitions of the Group. The Group's strategies to achieve these goals are to increase share liquidity, to achieve further debt and capital simplification, to transform Phoenix Life's operations and to integrate operating platforms within Ignis Asset Management.

(d) *Be a place where people want to work*

High levels of employee engagement, strong and effective leadership, clear communication and fair reward and development policies and practices should ensure the Group attracts and retains the right quality of people. The Group aims to achieve this through an active employee engagement programme, enhancing the support framework for staff impacted by organisational restructuring and further strengthening of its leadership development programme.

(e) *Build an industry-wide reputation*

Building an industry-wide reputation means being recognised as the industry leader in closed life fund consolidation, being recognised for the Group's safe delivery of customer outcomes and increasing stakeholder confidence in the Group's business model and governance. The Group aims to achieve this by putting in place defined and robust corporate governance, proactive and open stakeholder engagement and enhancing relationships with key stakeholders. It also intends to become an advocate for closed life fund issues.

(f) *Pursue value adding acquisitions*

The Group's goals in respect of pursuing value adding acquisitions are to have in-depth market awareness and open engagement with vendors, rigorous selection and evaluation of potential acquisition targets and making execution of transactions and integration of acquired businesses a core competency of the Group. The Group's strategies to achieve these goals are to establish proactive relationships with potential vendors, identification and evaluation of opportunities that offer significant value enhancement and synergy benefits and ensuring that the Group has the right skills and support to execute transactions and integrate acquired businesses.

3.3 Acquisition strategy

The Directors believe that the closed fund consolidation opportunity is supported by prevailing market dynamics, ensuring a supply of attractive potential acquisition targets. These include the probable implementation of Solvency II from 2013, meaning that sector participants are reviewing their balance sheets, and the implementation of Basel 3, which may result in banks restructuring their insurance interests. In addition, the Directors believe that the opportunity is supported by the trend within the sector of recycling and refocusing capital from mature to growth markets, the decline in new with profit business and regulatory change driving consolidation in the mutual sector. The Directors believe that legacy issues also support this opportunity through the migration of products to alternative structures, the cost challenge posed by the run-off of closed life funds and the exit of international participants.

The Directors believe that the market dynamics driving the market opportunity will impact life fund operators in different ways. The Directors believe that the Company would be able to find optimal solutions for any seller of life insurance business due to its flexible approach to acquisitions, being able to acquire life companies, funds or portfolios of business, and its appetite for all product types across the with profit, non profit and unit linked spectrum.

The Directors believe that the with profit market presents an opportunity for the Company for the following reasons:

- with profit policies are increasingly seen as a legacy product;
- with profit new business accounted for just 8 per cent. of UK new business premium of £85 billion in 2008; and
- with profit reserves are held in 57 UK funds but just five with profit funds accounted for 82 per cent. of new business in 2008.

4 STRUCTURE OF THE GROUP

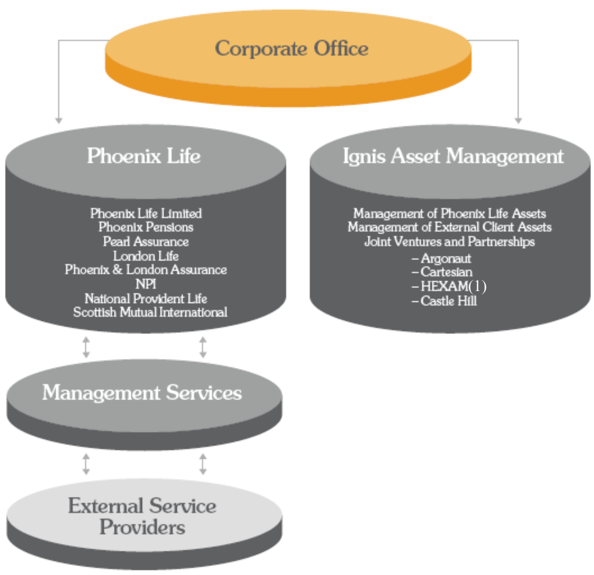
The Group's operating structure is aligned to the market sectors in which it operates. In this respect, the Group has two core business segments: life assurance (including its management services operations) – referred to as Phoenix Life; and an asset management business – referred to as Ignis Asset Management. The Group's UK-based Corporate Office, which brings together centralised functions that provide Group-wide services, provides functional support and coordination for the delivery of the Group's strategic initiatives.

Following completion of the Acquisition, the Company became the ultimate parent company of the Group and a new intermediate holding company, Phoenix Life Holdings, was created. Phoenix Life Holdings is the ultimate insurance parent undertaking within the EEA for group capital purposes. The IGD calculation is therefore prepared at this level.

The holding company structure between the Company and Phoenix Life Companies includes several holding companies which were established in relation to the acquisitions of the Pearl Life Companies and their affiliates in 2005 and the Resolution Group in 2008. Certain of these companies are the borrowers of the Group's external debt that was used to help fund the acquisitions. (For more information on the Group's borrowings, see Part XI: "Additional Information—Material Contracts").

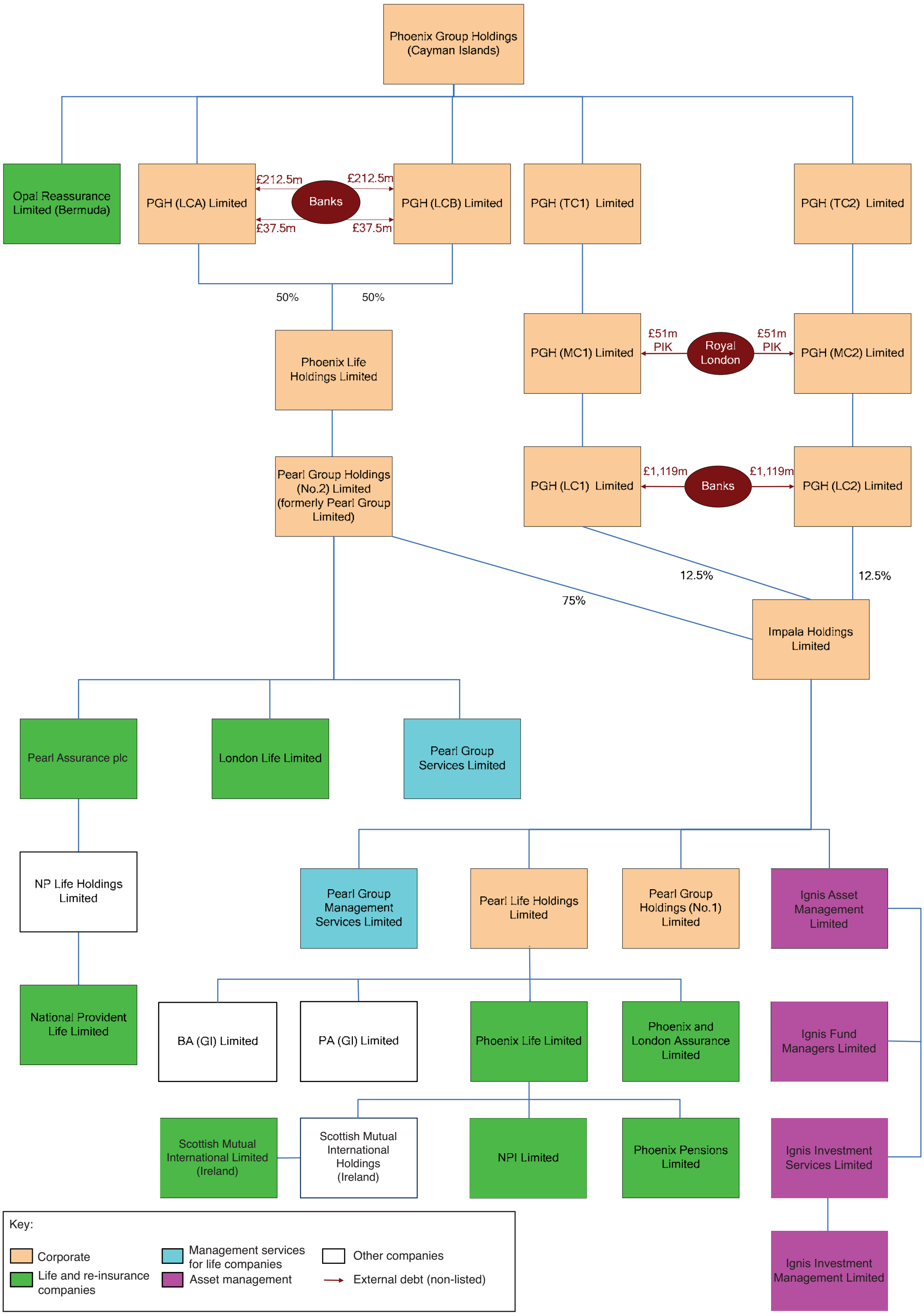
The Group's current operations and principal activities, being its life assurance and asset management businesses, and the related products sold and services performed by them, in each case as described in "—Phoenix Life" and "—Ignis Asset Management" below, are substantially the same as the operations and principal activities of, and the related products sold and services performed by, one or more of the Group, OPB and the Resolution Group in the period from 1 January 2007 to present. The financial information included in the Annex to this document includes information on the size of, and split between, the Group's, OPB's and the Resolution Group's respective life assurance and asset management businesses over the period from 1 January 2007 to 31 December 2009 and further details on the history of the Group and its components is included in Part VIII: "Operating and Financial Review—Basis of presentation—Structure and history of the Group".

The following chart gives an overview of the Group's operating structure:



(1) Ignis Asset Management is currently in discussions with its partners in HEXAM Capital Partners LLP, which may lead to HEXAM Capital Partners LLP ceasing to be structured as a joint venture.

The following chart gives an overview of the legal structure of the Group and its principal companies as at the date of this Prospectus.



Notes

1. Shareholdings are 100 per cent. unless otherwise indicated.

2. This chart excludes UK Commercial Property Trust Limited and the investment vehicles managed and/or operated by Ignis Asset Management.

3. See Part XI: "Additional Information—Material Contracts—Tier 1 Bonds", Part XI: "Additional Information—Material Contracts—Mutual Securitisation Bonds" and Part XI: "Additional Information—Material Contracts—Tier 2 Bonds" in relation to the listed debt securities that have been issued by, or relate to, members of the Group. The internal debt is excluded.

4.1 Phoenix Life

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

(a) Insurance business

(i) Life companies

The Group's eight operating life companies are regulated entities that hold the Group's policyholder assets. Seven of the eight life companies are regulated by the FSA and one is regulated by the Irish Financial Regulator. Over time, the Group has reduced the number of its individual life companies through fund mergers to realise efficiencies.

The following table sets out information about the Group's main life companies as of 31 December 2009:

	Policyholder Liabilities(1)			
Life Company	**With Profit**	**Unit Linked**	**Other Non Profit**	**Total**
	%	*%*	*%*	*£ million*
London Life	48	17	35	1,895
National Provident Life	51	24	25	7,268
NPI	5	68	27	4,177
Pearl Assurance	70	—	30	9,984
Phoenix Life Limited	47	24	29	33,678
Phoenix Pensions	—	—	100	4,167
Phoenix & London Assurance	63	13	24	6,280
Scottish Mutual International	—	32	68	502
Elimination of internal reassurance				(9,022)
Claims outstanding				416
Total	**53**	**20**	**28**	**59,343**

(1) The information in this table represents Pillar 1 liabilities and has been compiled from regulatory returns.

A Part VII Scheme under FSMA, a scheme whereby transfers of insurance businesses must be sanctioned by the High Court, transferring a block of assets and policies from National Provident Life to Pearl Assurance, was approved by the High Court on 5 February 2010 and policies were transferred on 15 February 2010. This transfer is expected to improve the financial strength of National Provident Life thereby enhancing security for policyholders remaining in National Provident Life. Policyholders transferring to Pearl Assurance will also benefit from its stronger capital position. It will also allow National Provident Life over time to improve the flexibility it has in managing its investments, which should be for the benefit of policyholders.

A scheme of arrangement in respect of Phoenix & London Assurance was approved by the High Court during 2009. This scheme removed guaranteed annuity rates for nearly 50,000 with profit pensions policies in exchange for increases in the value of these policies and greater investment freedom. The Group expects that this will also add stability to the run-off of Phoenix & London Assurance and should enable a transfer to Phoenix Life Limited under Part VII of FSMA.

Although the Group's life companies are closed fund companies and do not generally write new business, they do accept additional policyholder contributions on in-force policies and allow certain policies, such as pension savings plans, to be reinvested at maturity into annuities held by a Group life company. Writing annuities offers the Group a further opportunity to increase its embedded value through incremental investment returns, while also helping to better manage the liquidity position of the individual life companies.

To seek to achieve further capital and tax efficiencies, the Group's management intends in due course to transfer blocks of business between its life companies to further reduce the number of life companies within the Group. These transfers will be pursuant to Part VII of FSMA and will be subject to the non-objection of the FSA and approval of the High Court.

On 31 March 2010 PGH2 transferred its shares in NPI to Phoenix Life Limited, thereby consolidating the majority of the Group's unit linked business within Phoenix Life Limited. The intra-group transfer also provided some diversification benefits between the non profit funds of Phoenix Life Limited and NPI.

In addition, the Group has some residual exposure to general insurance risks. The Group's remaining general insurance liability exposure amounts to approximately £33 million of claims reserves, net of reinsurance and discounting, as at 31 December 2009.

(A) Asset mix

The Directors believe that the Group's asset portfolio is well diversified, as illustrated by the following table, which provides an overview of the exposure by asset category of the Group's life companies' shareholder and policyholder funds as at 31 December 2009:

			Policyholder Funds[1] *(Unaudited)*		
	Shareholder Funds[2]		**Participating[3]**	**Unit Linked**	**Total**
	£ million	*%*	*£ million*	*£ million*	*£ million*
Cash deposits	2,497	21	4,237	962	7,696
Debt securities – gilts	2,624	22	13,711	996	17,331
Debt securities – bonds	5,474	45	12,977	788	19,239
Equity securities	248	2	7,074	8,598	15,920
Property investments	84	1	1,510	189	1,783
Other investments[4]	1,159	9	949	11	2,119
Total	**12,086**	**100**	**40,458**	**11,544**	**64,088**

(1) Includes assets where policyholders bear most of the investment risk.
(2) Includes assets where shareholders of the Phoenix Life Companies bear the investment risk.
(3) Includes all assets held in with profit funds.
(4) Includes other loans, derivatives and other investments. £1,055 million of shareholder funds relates to Ignis Strategic Solutions Fund plc.

The following table sets out the exposure by type of debt security of the Group's life companies' shareholder funds as at 31 December 2009:

	Shareholder Funds[1]	
	(Unaudited) *£ million*	*%*
Gilts	**2,624**	**32**
Other government and supranationals	1,345	17
Corporate – financial institutions	1,068	13
Corporate – non financials	2,352	29
Asset backed securities	374	5
Other	335	4
Debt securities – bonds	**5,474**	—
Total debt securities[2]	**8,098**	**100**

(1) There is no shareholder exposure to collateralised debt obligations or collateralised loan obligations.
(2) £6,425 million (79 per cent.) of the total exposure to debt securities relates to assets backing annuity liabilities. Non-annuity exposures relate to other non-participating business and shareholder fund assets.

The following tables set out a breakdown of the Group's total bond portfolio backing annuities by credit rating and by sector as at 31 December 2009:

	By credit rating £6,425 million(1)
	(Unaudited) %
Gilts, other government and supranationals	45.0
AAA	4.2
AA	5.8
A	26.4
BBB	12.8
BB and below	2.1
Non-rated	3.7
Total	**100**

(1) Relates to assets held in non profit funds (excludes assets in with profit funds).

	By sector £6,425 million(1)
	(Unaudited) %
Gilts, other government and supranationals	45.0
Banks	11.1
Insurance	4.5
Utilities	9.4
Tech/Telecom	5.6
Other financials	11.3
Retail/Consumer	5.6
Other	7.5
Total	**100**

(1) Relates to assets held in non profit funds (excludes assets in with profit funds).

The following table sets out a breakdown of the Group's non-UK governmental and supranational holdings by country/entity as at 31 December 2009:

	£1,345 million
	(Unaudited) %
European Investment Bank	25.1
France	8.5
Germany	38.0
Luxembourg	7.4
Netherlands	5.3
US	1.5
Other[1]	14.2
Total	**100**

(1) Other includes Greece, Ireland, Italy and Spain, which represent 6.3 per cent. in aggregate of total exposure. The Group does not hold any debt instruments issued by the governments of Dubai, Portugal or Iceland.

(ii) Reinsurance

(A) Overview

The Group's life companies reinsure certain liabilities both to other companies in the Group and to third party reinsurers as part of their ongoing risk and capital management policies, as well as to benefit from operational synergies.

(B) Internal reinsurance

Within the Pearl Life Companies, Pearl Assurance acts as the reinsurer for various blocks of pensions annuity business as well as with profit bond business and with profit elements of unitised with profit contracts. Following its demutualisation in 2000, National Provident Life reinsured a significant portion of its unit linked business, including new business, to NPI.

Within the Impala Life Companies, a majority of the pensions annuity business is reinsured to Phoenix Pensions. In addition, Phoenix & London Assurance has transferred various insurance risks to Phoenix Life Limited, including permanent health insurance, term assurance and unitised with profit business. The various life funds within Phoenix Life Limited themselves also hold a significant amount of intra-fund reinsurance, mostly to achieve financial and operational synergies.

(C) Opal Re

Pearl Assurance, London Life and NPI ceded the substantial majority of their then in-payment annuity business to Opal Re in 2007. Opal Re is a Bermudian reinsurance company that reinsures risks solely for the Pearl Life Companies and does not have any third party clients. In connection with the Acquisition, Opal Re became a wholly owned subsidiary of the Company. As at 31 December 2009, Pearl Life Companies had reinsured a total of approximately £3.5 billion of their annuity liabilities with Opal Re.

Opal Re is governed under Bermudian regulations and certain UK Pillar 1 reserving regulations do not apply to it. This allows Opal Re to invest in a more diversified mix of assets than is typical for a UK based annuity business. Pearl Life Companies look through to the underlying risks of Opal Re and hold capital against such risks under UK Pillar 2 requirements.

(D) External reinsurance

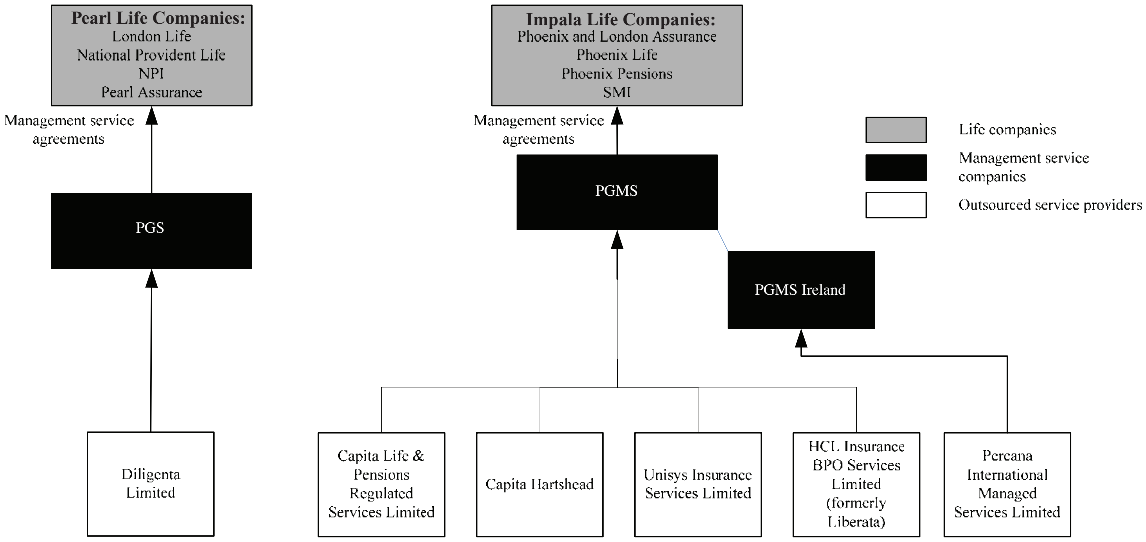
The Group's external reinsurance arrangements are spread across a number of reinsurers, including, among others, XL Re, AIG, Royal and Sun Alliance, Swiss Re, Unum, Munich Re and Hanover Re. These reinsurance arrangements cover a range of policy risks, including mortality and morbidity, long-term disability, critical illness, general insurance and some investment risk.

The total mathematical reserves reinsured externally were £2.9 billion as at 31 December 2009. Counterparty risk is partly mitigated through the use of custodian or other mitigating arrangements with a value totalling £2.2 billion. Residual aggregate exposures as at 31 December 2009 in excess of £100 million are to Royal and Sun Alliance (£145 million), Swiss Re (£151 million) and Munich Re (£133 million).

(iii) Management services

(A) Overview

The following diagram provides an overview of the organisational structure of the management service companies supporting Phoenix Life and its material third party outsourced service providers:



Each of the Phoenix Life Companies is responsible to its policyholders for the proper administration of its policy portfolio and the provision of policyholder services, such as collection of premiums, the provision of policyholder statements, settlement of claims, the provision of website access and information, and the provision of policyholder information and other related support through contact service centres. If each life company separately provided these services and related infrastructure, this would involve significant costs and create impediments for the life company in managing the efficient run-off of its policies. Much of this incremental cost would be likely to fall to policyholders. In addition to these cost challenges, each life company is required to hold sufficient capital for its operational risks.

To allow the Phoenix Life Companies to benefit from economies of scale, efficient outsource partnerships and an innovative integrated technology infrastructure, Phoenix Life's two UK management service companies, PGS and PGMS, provide, or manage the provision of, policyholder services for all of the Pearl Life Companies and the Impala Life Companies, respectively, under management service agreements. Under these agreements, the management service companies generally recover the costs of providing services to the life companies by charging a fixed price per policy, except in relation to a small number of policies where the fee charged is a percentage of assets under management. The services provided under these agreements are overseen by one of the main management committees known as the Relationship and Pricing Committee (the "RPC"). The main purpose of the RPC is to manage the relationship between PGS/PGMS and the Phoenix Life Companies. The management service agreements require PGS and PGMS to report to the relevant life company on its performance and any pricing issues arising from transactions; this reporting is done via the RPC. The life companies continue to retain ultimate responsibility to their policyholders and aim to achieve improvement in the quality of service delivered to policyholders.

PGS and PGMS are similar in the way they operate and provide similar services to each of the Phoenix Life Companies they serve. To leverage scale, increase synergies and remove inefficiencies, these management service companies are managed as a single unit. As at 31 December 2009, the two management service companies together employed a staff of approximately 860 (approximately 990 as at 31 December 2008). In addition to providing financial administration, internal audit, tax, legal, actuarial, risk, regulatory compliance, human resources, and change and project management services to the Phoenix Life Companies, the management service companies are also responsible for managing outsourced service providers and preparing third party supplier contracts. The Directors believe that by consolidating policyholder services within Phoenix Life's two management service companies and enabling the Phoenix Life Companies to share the costs of the provision of these services and other corporate overhead costs, both policyholders and shareholders benefit from efficiency savings, reductions in operational risks and the release of risk capital.

For the year ended 31 December 2009, PGS and PGMS generated the following revenues and profit:

	For the year ending 31 December 2009
	£ millions
Total revenues	348
Business as usual outsourcer costs	(175)
Other costs	(159)
Operating profit[(1)]	14

(1) Before exceptional items and goodwill amortisation

Note: Numbers are prepared in accordance with IFRS for the 12 month period ended 31 December 2009.

In addition, Phoenix Life also has a management service company incorporated in Ireland, PGMS Ireland, which provides administration services to Scottish Mutual International under a management services agreement which is structured in a similar manner to the management services agreements with PGS and PGMS.

(B) Outsourcing relationships

A key role for PGS, PGMS and PGMS Ireland is the management of relationships with the outsourced service providers on behalf of the Phoenix Life Companies. These outsourced service providers include: Capita Life & Pensions Regulated Services Limited (''Capita''), Diligenta Limited (''Diligenta'') (a subsidiary of Tata Consultancy Services; the Group owns a 24 per cent. interest in Diligenta), Capita Hartshead, HCL Insurance BPO Services Limited (previously known as Liberata), Unisys Insurance Services Limited and, as of 1 January 2010, Percana International Managed Services Limited.

As Phoenix Life's closed funds run off, fees generated from the management of policies generally decrease over time. Therefore, the Group is best served by closely aligning its costs with its policy run-off profile. Any costs that do not therefore decline in line with Phoenix Life's overall declining policy book create potential operating profit challenges. The use of outsourced service providers enables Phoenix Life to shift its cost base from a largely fixed cost base to a variable per-policy basis. For the year ended 31 December 2009, the Phoenix Life Companies had a business as usual OSP average expense per policy of £24, based on an average number of policies during 2009 of 7.4 million. Management estimates that the majority of its current cost base is variable and that this proportion will increase in the future as the use of outsourcers increases. The Group's OSPs are also able to offer their services at a competitive price per policy due to their larger economies of scale.

Phoenix Life's OSPs are specialist providers of life and pensions administration services, with the know-how, expertise and business models that put administration at the core of their service offerings. The OSPs' services include policy administration, human resources, financial administration, information technology and facilities management services (facilities management services are provided for PGS only).

Phoenix Life is considering how to further leverage and expand the outsourcing of its non-core activities and is in ongoing discussions with OSPs to improve its commercial relationships. During 2009, PGMS outsourced some of the financial administration functions that had been performed in-house (e.g., payroll) to Diligenta to make PGMS's outsourcing model more consistent with PGS's model and, more importantly, to benefit from both the technology platforms and preferential pricing already in place for PGS. In addition, a significant transformation of actuarial systems is currently planned to be implemented over the next three years.

The Directors believe that the number of OSPs could be further rationalised over time, offering additional cost savings through the negotiation of improved terms with chosen providers. However, any early termination of existing outsourcing agreements is likely to result in termination payments to the relevant OSP, which would initially offset the expected benefits of any new outsourcing arrangements. The initial contract expiration dates for the outsourcing agreements covering the majority of the Group's policyholders are between 2018 and 2019.

4.2 Ignis Asset Management

Ignis Asset Management is the Group's asset management business providing services to the Group's life companies as well as third party clients, including retail and institutional investors. Ignis Asset Management offers investment, asset and liability and fund of funds management services and has recently combined the Group's two asset management businesses under the Ignis Asset Management brand.

The following table provides an overview of Ignis Asset Management's revenues, expenses, operating profit, operating profit margin, assets under management and number of employees as at, or for the year ended, 31 December 2009:

	For the year ended 31 December 2009
	£ million
Fees from managing internal assets	81
Fees from managing third party assets	29
Other income	1
Total revenues(1)	**111**
Staff costs	(49)
Other operating expenses	(28)
Operating profit(2)(3)	**34**
Operating profit margin	31%

	As at 31 December 2009
	£ billion
Assets under management	
Internal assets(4)	62.8
Third party assets	4.1
Total assets under management	66.9

	As at 31 December 2009
Number of employees	**530**

(1) Includes 12 months of results of OPB.

(2) Revenues and expenses are stated net of rebates from collective investment schemes.

(3) Defined as profit before tax, exceptional items and goodwill amortisation.

(4) Includes £2.7 billion of Pearl Group Staff Pension Scheme and PGL Pension Scheme assets.

Ignis Asset Management manages the majority of the Group's investments. This is a model which, through agreements between the Phoenix Life Companies and Ignis Asset Management, provides the Group with the specialist life company investment skills it needs while allowing it to retain significant control, flexibility and influence over these activities. The Directors believe that this model should support the achievement of suitable investment returns over the longer term, the Group's plans for growth as well as enhancing the Group's profitability and value as these investment services are offered to the third party market. Ignis Asset Management has its own sales and marketing division with approximately 80 employees whose focus includes developing key relationships with independent financial advisers and global investment consultants to help access new clients and increase Ignis Asset Management's third party asset base.

In addition, Ignis Asset Management uses an innovative joint venture/partnership model and currently has three active joint ventures and one partnership arrangement. This provides Ignis Asset Management's clients with a wide range of investment options and access to additional fund management teams. The joint ventures are Argonaut Capital Partners LLP, Cartesian Capital Partners LLP and HEXAM Capital Partners LLP, while Castle Hill Asset Management LLP is currently the only partnership arrangement. Ignis Asset Management provides marketing and distribution, access to research, compliance and administrative infrastructure functions on behalf of each of the joint ventures. This framework provides the joint ventures with access to the Ignis Asset Management platform and the related economies of scale, while allowing the investment managers to focus on improving investment performance. Ignis Asset Management is currently in discussions with its partners in HEXAM Capital Partners LLP, which may lead to HEXAM Capital Partners LLP ceasing to be structured as a joint venture.

Ignis Asset Management's liability-driven investment platform represents part of its strategy of providing tailor-made solutions for Group assets and larger pension schemes. This platform assesses how the assets should be invested taking into account the liabilities that must be met over time and issues, where appropriate, such as salary progression, dates when benefits must be paid, tax-free cash elections and longevity rates.

Ignis Asset Management has offices in Glasgow and London and had approximately 530 employees as at 31 December 2009.

Ignis Asset Management includes the operations of Ignis Asset Management Limited, Ignis Investment Services Limited, Ignis Fund Managers Limited and Ignis Investment Management Limited (previously Axial Investment Management Limited, which was, until the fourth quarter of 2009, a separate business). (For more information, see "—Structure of the Group" of this Part IV.)

Ignis Investment Services Limited, Ignis Fund Managers Limited and Ignis Investment Management Limited are regulated by the FSA.

4.3 Corporate Office

The Corporate Office brings together centralised UK functions that provide Group-wide services for Phoenix Life and Ignis Asset Management. The Corporate Office has four principal roles:

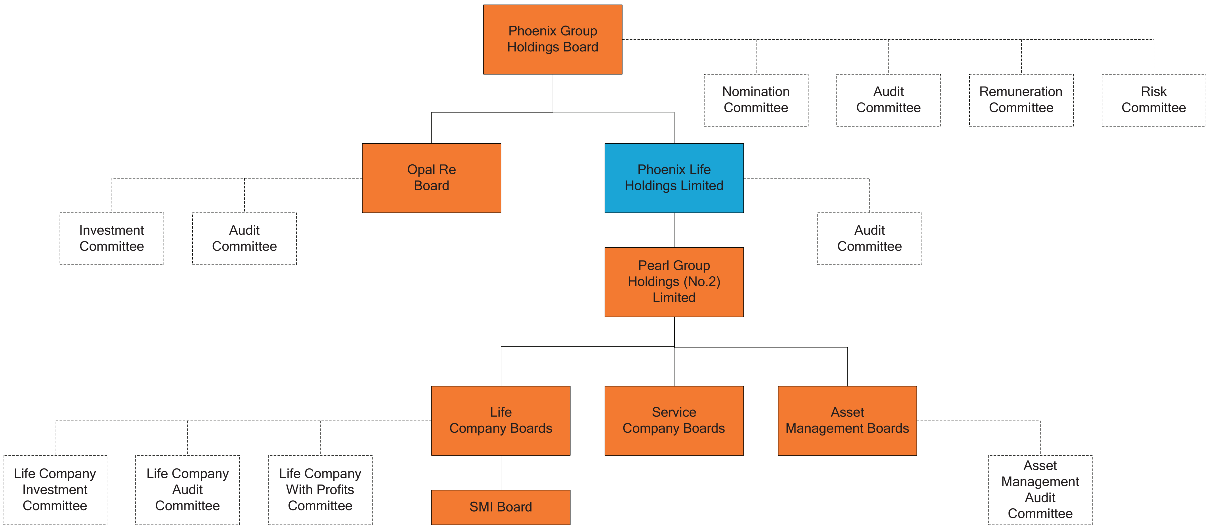
- To assist in the delivery of goals established by the Group Board;
- To promote the Group's strategy and profile to stakeholders as directed by the Board;
- To monitor alignment of business unit plans and Group goals; and
- To co-ordinate Group-wide initiatives.

The Corporate Office had approximately 40 employees as at 31 December 2009.

5 GOVERNANCE

Although the Company achieved a secondary listing on the London Stock Exchange in 2009, the Company was not, by virtue of that listing, required to comply with the June 2008 UK Combined Code on Corporate Governance (the "Combined Code"). However, the Directors support the high standards of corporate governance contained in the Combined Code and, in line with the Company's application for the Premium Listing, this section outlines the Company's position with regard to the Combined Code as at the date of this Prospectus.

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



5.1 The Board

The Board comprises the non-executive Chairman, the Group Chief Executive Officer, the Group Finance Director and 11 other non-executive directors who are not members of the Executive Committee (as that term is defined below) (the "Non-Executive Directors"), seven of whom are independent. (For biographical details of all Directors, see Part X: "Directors, Senior Management and Employees—Section A: Directors—Biographies of the Directors and Jonathan Yates".) The Board considers that the following Directors are independent as they do not have any interest or business or other relationship which could, or could reasonably be perceived to, interfere materially with their ability to act in the best interests of the Company: David Barnes, Charles Clarke, Ian Cormack, Tom Cross Brown, Isabel Hudson, Alastair Lyons and David Woods. The Board has considered the criteria proposed by the Combined Code in assessing the independence of the Directors.

Non-Executive Directors are appointed for a term of three years, and any subsequent terms are considered by the Nomination Committee. For information on the remuneration of the Directors, see Part X: "Directors, Senior Management and Employees—Section A: Directors—Directors' remuneration" and Part X: "Directors, Senior Management and Employees—Section A: Directors—Directors' and Jonathan Yates' service agreements and letters of appointment". The terms and conditions of appointment of Non-Executive Directors are on the Company's website. All Directors, apart from Simon Smith, will be subject to a vote for re-election at the AGM.

All the Directors of the Company are FSA Approved Persons in respect to all of the Company's subsidiaries that carry on business that are authorised and regulated by the FSA. Each such Director has been made aware of his or her duties under the FSA's Approved Persons Regime ("APER") and the FSA Supervision Manual ("SUP").

The Board is responsible to the shareholders for the overall governance and performance of the Group. The Board's role is to provide entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board has a schedule of matters reserved for its consideration and approval. These matters include:

- Group strategy and business plans;
- Major acquisitions, investments and capital expenditure;
- Financial reporting and controls;
- Dividend policy;
- Capital structure;
- Constitution of the Board's committees;
- Appointments to the Board and its committees; and
- Key group policies including the remuneration policy for the Directors.

The schedule of matters reserved for the Board is available from the Company Secretary. Matters which are not reserved for the Board and also its committees under their terms of reference (which are available on the Group website), or for shareholders in general meetings, are matters delegated to senior management or matters for the Company's operating subsidiaries who operate through management under authorities delegated to the Group Chief Executive Officer, the Group Finance Director and other senior executives under a schedule of delegated authorities with specific parameters approved by the Board.

Central management and control is in Jersey where the Company's head office is located.

5.2 The Chairman, Group Chief Executive Officer and Senior Independent Non-Executive Director

There is a division of responsibility, approved by the Board, between the Chairman, Ron Sandler, who is responsible for the leadership and effective operation of the Board and the Group Chief Executive Officer, Jonathan Moss, who is responsible to the Board for the overall management and operation of the Group. The Chairman's other significant commitments are set out in his biographical details in Part X: "Directors, Senior Management and Employees—Section A: Directors".

The Senior Independent Non-Executive Director, appointed by the Board, is Alastair Lyons. His role is to be available to shareholders whose concerns are not resolved through the normal channels or when such channels are inappropriate. He is also responsible for leading the appraisal of the Chairman's performance by the Non-Executive Directors and for leading the process for appointing a new Chairman, when appropriate.

5.3 Effectiveness of the Board

The Board changed completely at the start of September 2009 on the Company's acquisition of OPB. Additions were made to the Board during the latter part of 2009 and the first quarter of 2010 to establish the Board in its current state. The evaluation of its performance and that of its committees and individual Directors will take place in accordance with the Board's approved evaluation process. This is scheduled to take place in the latter part of 2010 once the new Board has operated as a unit for a reasonable period. The process, approved by the Board, is as follows:

The Chairman will facilitate a discussion on, and evaluation of, the Board's performance. This will include discussions both collectively and individually about:

- The Board's role;
- The Board's processes;
- The Board's performance;
- The role and performance of the Board's committees;
- Any conflicts of interest; and
- Other relevant issues.

Led by the Senior Independent Non-Executive Director, the Non-Executive Directors will meet, without the Chairman present, to appraise the Chairman's performance, after taking into account the views of Executive Directors.

A review of a Director's individual performance will be undertaken by the Chairman and the Board as part of the evaluation. This review will aim to show whether the Director in question continues to contribute effectively and to demonstrate commitment to the role (including commitment of time to Board and committee meetings and any other duties). The Chairman should act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the Board and, where appropriate, proposing new members to be appointed to the Board or seeking the resignation of Directors.

All Directors receive a tailored induction on joining the Board in accordance with a process approved by the Board. To ensure that the Directors continually update their skills and their knowledge of the Company, all Directors receive regular presentations on different aspects of the Company's business and on financial, legal and regulatory issues.

5.4 Operation of the Board

The terms of appointment for the Directors state that they are expected to attend in person regular (at least six per year) and emergency Board meetings of the Company and to devote appropriate preparation time ahead of each meeting. The Board is scheduled to meet eight times in 2010 including a two-day strategy-setting meeting. Additional meetings will be held as required, and the

Non-Executive Directors will continue to hold meetings with the Chairman without the Executive Directors being present.

Following the acquisition of OPB on 2 September 2009, the Board met four times in 2009. Attendance by each of the Directors at those meetings was:

	Date appointed	Number of meetings held in 2009 while a Director	Number of meetings attended in 2009 while a Director
Ron Sandler	24 September 2009	2	2
Jonathan Moss	2 September 2009	4	4
Simon Smith	2 September 2009	4	4
Ian Ashken	2 September 2009	4	3
René-Pierre Azria	2 September 2009	4	4
David Barnes	2 September 2009	4	4
Ian Cormack	2 September 2009	4	3
Tom Cross Brown	24 September 2009	2	1
Manjit Dale	2 September 2009	4	4
Hugh Osmond	2 September 2009	4	3
Jonathan Evans	2 September 2009	2	2

The dates of appointment of the remaining current Directors were:

- Alastair Lyons – 29 March 2010
- Charles Clarke – 18 February 2010
- Isabel Hudson – 18 February 2010
- David Woods – 18 February 2010

The Board approved, on 3 September 2009, a corporate governance manual which sets a framework within which the Directors and other employees are expected to act to protect the interests of shareholders, customers, employees and suppliers. It includes policies on share trading, market disclosure and conflicts of interest.

All Directors have access to the advice and services of the Company Secretary, who can be appointed or removed only with the approval of the Board. The Board has adopted a procedure whereby Directors may, in the performance of their duties, seek independent professional advice at the Company's expense if considered appropriate.

5.5 Board's committees

The Board has delegated specific responsibilities to four standing committees of the Board. The terms of reference of the committees are on the Company's website.

(a) Audit Committee

Alastair Lyons is the Chairman of the Audit Committee. The other members are David Barnes and Charles Clarke. The Chairman of the Audit Committee has recent and relevant financial experience. The composition of the Committee is in accordance with the requirements of the Combined Code that the Audit Committee should consist of at least three Independent Non-Executive Directors of which at least one has recent and relevant financial experience. The Audit Committee was established on 29 March 2010 following the appointment of additional Independent Non-Executive Directors to the Board. The Audit Committee is scheduled to meet five times in 2010.

The Audit Committee is responsible for making recommendations to the Board on such matters as the appointment of the external auditors and their terms of engagement and for reviewing the performance, objectivity and independence of the external auditors. The Audit Committee is also responsible for assessing the effectiveness of the internal audit function. The Audit Committee receives and reviews the annual report and accounts and other related financial disclosures, the ultimate responsibility for these matters remaining with the Board. It monitors the overall integrity of the financial reporting by the Company and its subsidiaries and reviews compliance with legal and regulatory requirements in respect of financial matters and the effectiveness of the Group's internal controls. The terms of reference of the Audit Committee state that it shall meet the external auditor at least once a year without management being present.

The Company has adopted a Charter of Statutory Auditor Independence, which requires both the Company and the external auditors to take measures to safeguard the objectivity and independence of the external auditors. These measures include a prohibition regarding non-audit services in respect of specific areas, such as secondments to management positions, or which could create a conflict or perceived conflict. It also includes details of the procedures for the rotation of the external audit engagement partner. The Charter of Statutory Auditor Independence is on the Company's website.

(b) Nomination Committee

Ron Sandler is the Chairman of the Nomination Committee. The other members are Ian Cormack and Tom Cross Brown. The composition of the Committee is in accordance with the requirements of the Combined Code that the Nomination Committee should consist of a majority of Independent Non-Executive Directors and that the Chairman or an Independent Non-Executive Director should chair the Committee. The Nomination Committee was established on 18 February 2010 following the appointment of additional Independent Non-Executive Directors to the Board.

The Nomination Committee is responsible for considering the size, composition and balance of the Board, and the retirement and appointment of Directors and making recommendations to the Board on these matters. During 2009 and the early part of 2010, the appointment of new Directors was considered by the Board, and in all cases, an external search consultancy was used to identify suitable candidates. The Nomination Committee considers succession planning for Directors and other senior executives.

(c) Remuneration Committee

Ian Cormack is the Chairman of the Remuneration Committee. The other members are David Barnes and Isabel Hudson. The composition of the Committee is in accordance with the requirements of the Combined Code that the Remuneration Committee should consist of at least three Independent Non-Executive Directors. The Remuneration Committee was established on 18 February 2010 following the appointment of additional Independent Non-Executive Directors to the Board. The Remuneration Committee is scheduled to meet twice in 2010.

The Remuneration Committee is responsible for making recommendations to the Board on the Company's remuneration and compensation plans, policies and practices and for determining, within agreed terms of reference, specific remuneration packages for the Executive Directors and other senior executives in the Group. These include pension rights and executive incentive schemes to encourage superior performance. For information on the remuneration of the Directors, see Part X: "Directors, Senior Management and Employees—Section A: Directors—Directors' remuneration" and Part X: "Directors, Senior Management and Employees—Section A: Directors—Directors' and Jonathan Yates' service agreements and letters of appointment".

Hewitt New Bridge Street, the Company's remuneration consultants, provide advice to the Remuneration Committee.

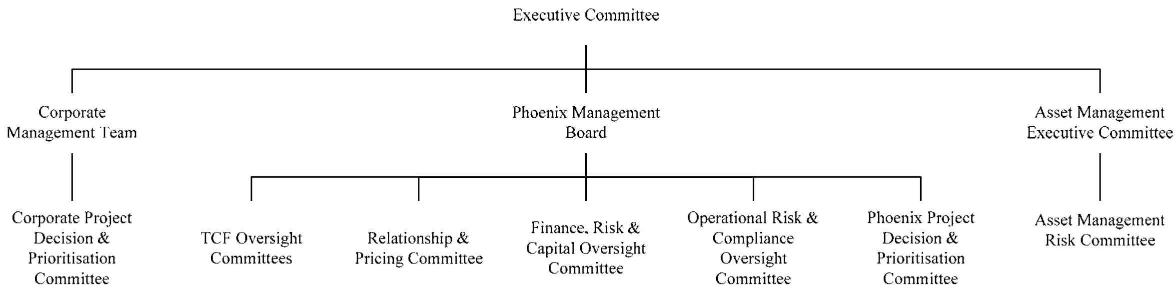
(d) Risk Committee

The establishment of a Risk Committee is not a requirement of the Combined Code. However, the Directors believe such a committee is important to ensure the robust management of risk for the Group. The composition of the Committee, with a majority of Independent Non-Executive Directors, is in accordance with the final recommendations of the report by Sir David Walker "A review of corporate governance in UK banks and other financial industry entities".

David Woods is the Chairman of the Risk Committee. The other members are René-Pierre Azria, Tom Cross Brown, Isabel Hudson and Hugh Osmond. The Risk Committee was established on 26 February 2010 following the appointment of additional Independent Non-Executive Directors to the Board. The Risk Committee is scheduled to meet five times in 2010.

The Risk Committee is responsible for advising the Board on risk appetite and tolerance in setting the future strategy, taking account of the Board's overall assessment of risk, the current financial situation of the Company and, drawing on assessment by the Audit Committee, the Company's capacity to manage and control risks within the agreed strategy. The Risk Committee is also responsible for advising the Board on all high-level risk matters but does not extend into operational matters which are for the executive within the overall risk framework determined by the Board.

The following diagram depicts the Group's current management oversight committee structure:



6 RISK MANAGEMENT

Risk management is an essential part of the Group's strategic agenda. The Directors seek to ensure that the Group understands and manages its risks accordingly; to create additional value for its stakeholders and to mitigate any potentially adverse effects.

A risk framework is in place which seeks to establish a coherent and interactive set of risk management arrangements comprising formal committees, risk review functions, risk management policies and risk assessment processes. This framework allows informed decisions to be made by the relevant statutory and regulated entity boards and senior management. The framework defines how risks taken by the Group are managed and mitigated ensuring that initiatives are not evaluated purely in terms of the potential returns, but also in terms of the range of potential outcomes which may arise and their relative likelihood. The framework provides assurance that risks are being appropriately identified and managed and that an independent assessment of management's approach to risk management is being performed.

See Part II of this document for a discussion of certain risks relating to the Group.

6.1 Risk culture, oversight and governance

Overall responsibility for approving, establishing and maintaining the risk framework rests with the Board. The Directors recognise the critical importance of having efficient and effective risk management systems and appropriate oversight of their output. A clear organisation structure with documented, delegated authorities and responsibilities from the Board to Phoenix Life Holdings' board of directors and onwards to senior management is in place.

A series of divisional management oversight committees covering financial and operational risks exists within the Group. These committees are responsible for ensuring the risks associated with the divisional business activities are identified, controlled, monitored and reported to the relevant boards and board committees.

Each committee has formal terms of reference which are approved by the relevant divisional group executive team. Overall reporting of risk management and escalation of emerging issues is undertaken through divisional management committees to the Executive Committee and reported to the board of directors of Phoenix Life Holdings and the Board.

Risk management continues to evolve within the Group and developments to augment risk culture and governance across the Group will continue. Actions taken recently include the appointment of a Group Chief Risk Officer in November 2009, the establishment of a Risk Committee of the Board in early 2010 and improvements in consolidated risk reporting in line with current best practice. The Group sees these enhancements as key to supporting further strengthening of the Group's risk culture and seeking to maintain it in line with current best practice guidelines.

6.2 Risk management framework overview

The Group's risk management framework is underpinned by its governance model which includes statutory boards, management boards, risk policies, oversight committees and established governance functions.

(a) Three Lines of Defence

The Group operates a "Three Lines of Defence" model:

- First line: management of risk is delegated from the Board to the Group Chief Executive Officer, Phoenix Life Holding's board and its Executive Committee members and through to divisional business managers

- Second line: risk oversight is provided by the Group's divisional risk and compliance functions and established oversight committees
- Third line: independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by the Audit Committee of the Board. The Audit Committee of the Board is supported by the Group Internal Audit function

(b) Risk appetite

The Group risk appetite framework consists of a set of statements that articulate the risk appetite of the Board with respect to policyholder security, earnings volatility, liquidity and regulatory compliance.

A range of high level metrics and reporting mechanisms is in place to monitor risk appetite across the Group. Breaches of the risk appetite framework are corrected through management action when appropriate.

Further development work is underway to establish risk appetite limits and trigger points in terms of capital and earnings impact, and ensure that such limits are aligned with capital resources and shareholder expectations.

(c) Risk assessment processes

The Group has a standardised assessment framework for the identification and assessment of the different types of risk it may be exposed to and how much capital should be held in relation to those exposures. This framework is applicable across the Group as a whole and establishes a basis of consistency not only for the approach to risk assessment, management and reporting processes but also for determining and embedding capital management at all levels of the Group.

Risk assessment activity is a continuous process and is performed on the basis of identifying and managing the significant risks to the achievement of the Group's objectives. Stress and scenario tests are used to support the assessment of risk and analysis of the financial impact. The Board committees, the Executive Committee, senior management and specialist functions (e.g., finance, risk and actuarial) review the various outputs of the risk assessments. A Group-level risk assessment process determines the most significant risks to the Group and the options available for their management.

(d) Risk review functions

The Group's and the divisional operating units' risk functions provide oversight of the risk management processes across the Group. A central risk review function is being created with responsibility for the oversight of the risk management framework, policy and standards across the Group. Risk review functions in each of the business units manage the framework in line with these standards. Their responsibilities include the evaluation of changes in the business operating environment and business processes, the assessment of the impact of these changes on risks to business and the monitoring of the mitigating actions. The risk functions also ensure that divisional risk committees are provided with meaningful risk reports and that there is appropriate information to assess risks.

(e) Risk policies & categorisation

A policy framework exists, which sets out the high level risk appetite of the Group, together with risk management, internal control and business conduct standards for the Group's operating units.

The policies define:

- The Group's methods for the identification of risk and its interpretation;
- Required structures to ensure the appropriate quality and diversification of assets in the context of the liabilities;
- The Group's approach to ensuring that its customers are treated fairly; and
- Reporting requirements.

Each policy is the responsibility of a member of the Executive Committee (as defined in Part X: "Directors, Senior Management and Employees—Section B: Senior Management—The Executive Committee") who is charged with overseeing compliance with the policy throughout the Group.

PART V: INDUSTRY

1 OVERVIEW OF UK LIFE INSURANCE MARKET

The UK is the world's second largest life insurance market and the largest in Europe, with total premiums in 2008 of £197 billion. The FSA, the UK financial services regulator, has authorised 237 companies to carry out long-term life insurance business, such as life and disability insurance and private pensions, in the UK. Companies that carry out long-term life insurance business are referred to in this Prospectus as life companies. As of 31 December 2008, the UK insurance industry had £1,496 billion of investments on behalf of customers, including £1,384 billion of long-term investments.

The large size of the UK long-term life insurance market compared to other major Western European countries is generally attributed to the less generous nature of UK state pension and disability benefits. Therefore, UK residents tend to look to life companies to supplement state benefits, largely through contributions to private pension schemes that are sold and administered by life companies.

The UK long-term life insurance market consists of two sectors:

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

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

2 OVERVIEW OF THE ASSET MANAGEMENT MARKET

The UK asset management sector is one of the most developed in Western Europe, with total net assets of £510.9 billion under management for March 2010. The trends in the UK asset management sector broadly mirror those seen globally, where declining asset values in 2008 and 2009 negatively impacted the sector. Against this background, players in the sector continue to consolidate, with the largest firms globally now each managing around $1 trillion of funds versus less than $500 billion five years ago.

The asset management sector can be broadly split between funds which are passively or actively managed. Passively managed funds may be focussed on tracking a benchmark. Revenue is typically generated by taking an annual fee calculated as a percentage of the funds under management. Alternatively, active funds focus on regular trading and portfolio refinement to try to outperform a benchmark. Investors typically pay higher fees for active management, where revenue may be calculated in relation to fund performance, as well as assets under management.

In addition to this categorisation, approaches can be broadly split between traditional and alternative, reflecting the investment strategy and assets in which funds are invested. Historically, traditional asset managers have invested in fixed income and equity assets. Alternative asset managers, which have gained prominence in the last decade, aim to generate "alpha" (that is, investment performance above that of the relevant market(s)) through other investment strategies including the use of options, derivatives and alternative asset classes.

Asset management firms and funds can also be categorised by the source of their capital. Retail funds typically source their assets under management from individuals and small businesses. Alternatively, wholesale funds are generated from organisations such as pension funds, charities and other institutions. In addition to this there are the captive asset managers, such as Ignis Asset Management, which operate within larger insurance companies and who manage the assets of related group entities.

There are a large number of traditional and alternative asset management companies competing in the UK, including asset managers held within larger insurance groups, quoted independent entities and privately owned asset managers. Legal & General Investment Management and Standard Life Investments are examples of UK asset managers that are part of larger insurance groups and manage assets for their insurance company parent companies as well as third parties. There are some asset managers, for example F&C Asset Management plc, that are independent entities but which will also have mandates to manage assets for third party insurance companies.

3 COMMON TYPES OF UK LIFE INSURANCE POLICIES

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

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

3.1 Non profit policies

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

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

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

3.2 With profit policies

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

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

- declining investment returns have resulted in a general reduction in bonus rates and an increased use of market value adjustments across the industry; and
- increased regulatory scrutiny and subsequent changes to the regulatory framework, including enhanced capital requirements, has made with profit products more capital intensive and operationally expensive for life insurers to sell.

4 CLOSED LIFE FUNDS

4.1 Reasons for fund closures

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

- insufficient capital strength to support taking on new policies;
- poor levels of profitability on new business; and

- strategic decision to stop writing certain types of new business, such as with profit policies.

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

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

Similar issues to those that arose in the 2001 to 2003 period resurfaced amidst the ongoing turmoil in financial markets, which occurred in 2008 and 2009, due to the poor performance of most asset classes, which adversely affected the capital position of many life companies. Furthermore, increased regulatory scrutiny and subsequent changes to the regulatory framework, including enhanced capital requirements, has made life insurance products more capital intensive and more expensive for life insurers to sell and administer. These trends are set to continue with the introduction of a revised set of EU-wide capital requirements, Solvency II (the main aspects of this framework are described in Part II: "Risk Factors—Risks related to the Group—Various new reforms to the legislation and regulation relating to the UK life insurance and asset management industries have been proposed that could adversely affect the Group"). The result of Solvency II is likely to be that the FSA may require UK life companies to enhance their governance arrangements and to retain additional capital to protect them from further declines in asset values and therefore increase policyholder security. The Group's Directors believe that a consequence of this will be that more life insurance funds will close to new business and a number of closed fund life companies will be put up for sale in the next few years, as some insurance groups seek to release value from closed funds to support their ongoing new business.

4.2 Closed life fund characteristics

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

4.3 Competitive environment for closed fund consolidators

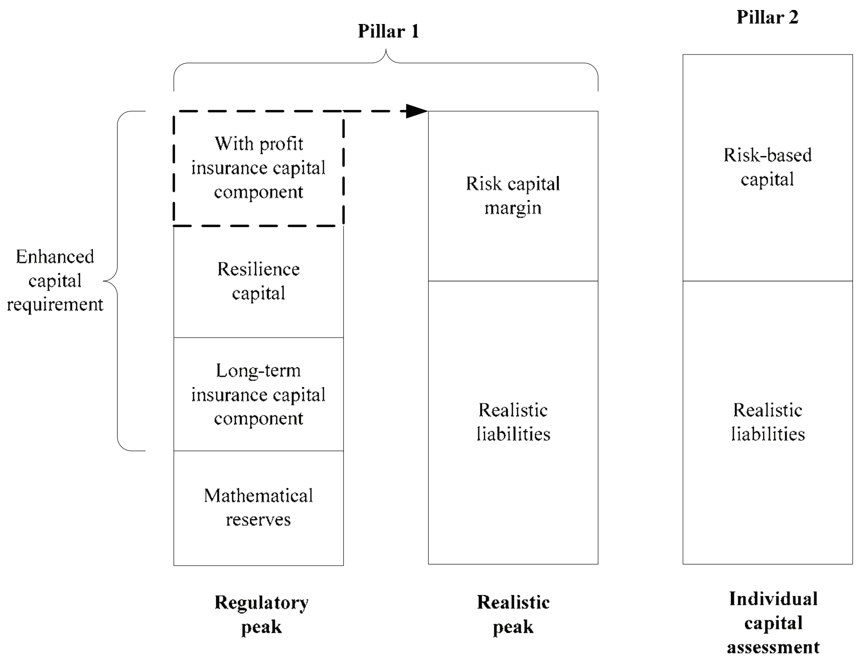
Closed fund consolidators compete with each other for the acquisition of closed life companies that may, from time to time, become available in the market. Over the past five years, a limited number of closed fund consolidators have acquired UK closed fund life companies. The Group is the largest UK consolidator of closed funds, measured by total assets. Other UK closed fund consolidators include Chesnara plc, Deutsche Bank and Swiss Re.

5 GENERAL OVERVIEW OF THE UK REGULATORY CAPITAL FRAMEWORK

5.1 Overview

Each UK life company must retain sufficient capital at all times to meet the regulatory capital requirements mandated by the FSA. In addition to EU-directive-based "Pillar 1" and group capital requirements, the FSA has also stipulated a "Pillar 2" of risk-based capital requirements that have been implemented in the UK. A life company's actual capital requirement is based on whichever of the Pillar 1 or Pillar 2 requirement turns out to be more onerous for the company. Each life company generally holds an amount of capital that is greater than the minimum required amount to allow for adverse events in the future that may use capital and cause the company to fail the minimum level of regulatory capital test.

The following diagram provides an overview of the UK regulatory capital framework for a with profit fund:



The UK regulatory capital framework for a non profit fund is similar to the above diagram, but the realistic peak and hence the with profit insurance capital component ("WPICC") are not relevant.

5.2 Pillar 1

(a) Regulatory peak

Mathematical reserves are liabilities calculated using assumptions including prudential margins but exclude any final bonus liabilities for with profit policies. The calculation of these reserves falls under a set of rules prescribed by the EU and the FSA. With the exception of with profit businesses, the regulatory capital requirement under Pillar 1 is the total amount held in respect of investment, expense and insurance risks (the "long-term insurance capital component") and any additional amounts required to cover the more onerous of two specified stress tests (the "resilience capital requirement"). The regulatory capital requirement is then deducted from the available capital resources to give the regulatory basis excess capital.

(b) Realistic peak

A further test is required under Pillar 1 in respect of with profit funds. This test compares the life company's level of realistic basis excess capital to the regulatory basis excess capital and, in circumstances where the realistic basis excess capital position is less, the life company is required to hold additional capital to cover the shortfall. The realistic basis excess capital is calculated as the difference between realistic assets and realistic liabilities of the with profit fund with a further deduction to cover various stress tests (the "risk capital margin"). Any additional capital requirement under this test to that of the regulatory peak is referred to as the "with profit insurance capital component" or the "WPICC" (as defined in "—Overview" above).

5.3 Pillar 2

The Pillar 2 capital requirements are based on a self-assessment methodology, the so-called individual capital assessment methodology. This methodology determines the capital requirement to ensure that the life company's realistic liabilities can be met in one-year's time with a 99.5 per cent. confidence level, or a one-in-200-year event. This assessment includes both mathematically and subjectively derived risk capital tests.

The FSA reviews each life company's individual capital assessment and may impose additional capital requirements if necessary. To the extent that the subsidiary life company subsequently is unable to satisfy its policyholder liabilities, undistributed shareholder funds of the subsidiary life company may be required to be transferred back to the subsidiary's policyholder funds.

5.4 IGD Solvency Surplus

FSA-regulated insurance groups (including their insurance holding companies) are required to provide capital adequacy calculations on a group-wide basis, a so-called "IGD Solvency Surplus," to enable the FSA to assess both the level of insurance and financial risk within the relevant insurance group and the resources available to cover this risk. The Group stress tests IGD Solvency Surplus against a number of financial and non-financial scenarios to ensure it remains in excess of 125 per cent. coverage in all reasonably foreseeable circumstances.

For more information about the UK regulatory capital framework, see Part VI: "Regulation".

PART VI: REGULATION

1 OVERVIEW

The Group's operations are subject to extensive government regulation, including FSMA and other UK laws, including, for example, the Data Protection Act 1998 in relation to the processing of customer data. Some of these laws require the relevant Group entity to be licensed or registered. Below is an overview of the regulatory framework for the insurance and asset management industries in the UK. The Group has operations that are subject to applicable law and regulation in the following jurisdictions: Hong Kong, Ireland, Luxembourg, Guernsey and Jersey and to applicable laws in the US. In addition, Opal Re, a Group company and reinsurer for certain of the Group's life companies, is subject to regulation under the laws of Bermuda and the rules of the BMA.

2 THE FINANCIAL SERVICES AND MARKETS ACT 2000 ("FSMA")

The Group's insurance and investment businesses in the UK are regulated by the FSA, the statutory regulator granted powers under FSMA.

2.1 Risk-based regulation

The FSA employs a risk-based regulatory approach to supervision under FSMA pursuant to which each regulated firm's risk is assessed using a risk assessment methodology known as ARROW. This is a high-level review aimed at assessing the significance of a particular risk posing a threat to the FSA's statutory objectives under FSMA. These objectives relate to market confidence, public awareness, consumer protection and the reduction of financial crime.

The ARROW framework, supported by a "close and continuous" relationship, is the core of the FSA's risk-based approach to regulation. Using this process, the FSA will consider the particular risks a firm might pose to its statutory objectives by assessing the impact and probability of particular risks materialising.

Failure to meet the FSA's expectations in relation to risks presented to its statutory objectives may lead to negative consequences, including the requirement to maintain a higher level of Pillar 2 capital to match the higher perceived risks, and enforcement action where the risks identified breach the FSA's high-level or more prescriptive rules.

2.2 Overview of FSMA regulatory regime

Single Regulator. The FSA is the single regulator for all authorised persons with respect to regulated activities in the financial services sector. In this regard, the FSA is authorised to make rules and issue guidance in relation to a wide sphere of activities encompassing the governance of a firm, the way it conducts its business and the prudential supervision of firms.

Permission to Carry on "Regulated Activities". Under FSMA, no person may carry on or purport to carry on a regulated activity by way of business in the UK unless he is an authorised person or is an exempt person. A firm that is authorised by the FSA to carry on regulated activities becomes an authorised person for the purposes of FSMA. "Regulated activities" are currently prescribed in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (as amended) and include insurance and investment business (which includes managing investments), as well as certain other activities such as establishing, operating and winding-up stakeholder pension schemes, the mediation of general insurance and certain mortgage mediation and lending activities.

Authorisation Procedure. In granting an application for authorisation by a firm, the FSA may delineate the scope of, and include such restrictions on, the grant of permission as it deems appropriate. In granting or varying the terms of a firm's permissions, the FSA must ensure that the firm meets certain threshold conditions, which, among other things, require the firm to have adequate resources for the carrying on of its business, and to be a fit and proper person, having regard to all the circumstances.

Once authorised, and in addition to continuing to meet the threshold conditions to authorisation, firms are obliged to comply with the FSA Principles for Businesses, which are high-level principles for conducting financial services business in the UK. These include the maintenance of adequate systems and controls, treating customers fairly and communicating with customers in a manner that is clear, fair and not misleading.

In addition, the FSA's rulebook contains more detailed rules covering, among other things, systems and controls, conduct of business and prudential (i.e., capital) requirements.

Moreover, FSMA obliges firms to secure the FSA's prior approval of the appointment of individuals performing certain important functions within a firm or on its behalf with respect to the carrying on of regulated activities (approved persons).

Principles for Businesses. A key feature of the FSA regime is the existence of 11 "Principles for Businesses", with which all firms are expected to comply. These cover key areas such as firms' relationship with the FSA, the need to act with integrity and the requirement to treat customers fairly.

The FSA has moved away from a detailed rules-based regime in favour of a principles-based approach to regulation, much of which is directed by the Principles for Businesses mentioned above. Firms face greater uncertainty as to what is deemed to be "compliant" under such a regime and this is a concern in the industry. Notwithstanding the move to more principles-based regulation, the FSA's rulebook still contains a large number of detailed rules applicable to authorised persons.

2.3 Application of FSMA regulatory regime to the Group

Each of the Group's principal UK insurance and investment businesses is subject to regulation and supervision by the FSA in the carrying on of the Group's regulated activities. The discussion below considers, in turn, the main features of FSMA regime applicable to the Group's insurance and asset management businesses in the UK. Subsequently, the discussion below considers in more detail the regulatory regime in the UK for insurance businesses.

3 REGULATION APPLICABLE TO THE GROUP'S INSURANCE AND ASSET MANAGEMENT BUSINESSES

3.1 Supervision of management and change of control of authorised firms

The FSA closely supervises the management of authorised firms through the approved persons regime, under which any appointment of persons who hold positions of, among other things, significant influence within an authorised firm must be pre-approved by the FSA.

The FSA also regulates the acquisition and increase of control over authorised firms. Under FSMA, any person proposing to acquire control of, or increase control over, an authorised firm must first obtain the consent of the FSA. In considering whether to grant or withhold its approval to the acquisition of control, the FSA must be satisfied both that the acquirer is a fit and proper person and that the interests of consumers would not be threatened by his acquisition of, or increase in, control.

"Control" for these purposes includes, among other things, a shareholding of 10 per cent. or more in an authorised firm or its parent undertaking. In order to determine whether a person or a group of persons is a "controller" for the purposes of FSMA, the holdings (shares or voting rights) of the person and other persons acting in concert with such persons, if any, are aggregated. A person will be treated as increasing his control over an authorised firm, and therefore requiring further approval from the FSA, if the level of his shareholding in the authorised firm or, as the case may be, its parent undertaking, increases by any threshold step. The threshold steps occur at 20 per cent., 30 per cent. and 50 per cent.

3.2 Intervention and enforcement

The FSA has extensive powers to investigate and intervene in the affairs of an authorised firm. FSMA imposes statutory obligations on the FSA to monitor compliance with the requirements imposed by, and to enforce the provisions of, FSMA, related secondary legislation and the rules made thereunder.

The FSA's enforcement powers, which may be exercised against both authorised firms and approved persons, include public censure, imposition of unlimited fines and, in serious cases, the variation or revocation of permission to carry on regulated activities or of an approved person's approved status. In addition, the FSA may vary or revoke an authorised firm's permission if it is desirable to protect the interests of consumers or potential consumers, or if the firm has not engaged in regulated activity for 12 months, or if it is failing to meet the threshold conditions for authorisation. The FSA has further powers to obtain injunctions against authorised persons and to impose or seek restitution orders where persons have suffered loss. Once the FSA has made a decision to take enforcement action against an authorised or approved person (other than in the case of an application to the court for an injunction or restitution order), the person affected may refer the matter to the Financial Services and Markets Tribunal. Breaches of certain FSA rules by an authorised firm may also give a private person who suffers loss as a result of the breach a right of action against the authorised firm for damages.

In addition to its ability to apply sanctions for market abuse, the FSA has the power to prosecute criminal offences arising under FSMA, insider dealing under Part V of the Criminal Justice Act 1993 and breaches of money laundering regulations. The FSA has indicated that it is prepared to prosecute more cases in the criminal courts where appropriate.

The FSA, although not a creditor, may seek administration orders under the Insolvency Act 1986 (as amended), present a petition for the winding-up of an authorised firm or have standing to be heard in the voluntary winding-up of an authorised firm. It should be noted that insurers carrying on long-term insurance business cannot voluntarily be wound up without the consent of the FSA.

3.3 FSA's Conduct of Business Rules

The FSA's Conduct of Business Rules apply to every authorised firm carrying on regulated activities and regulate the day-to-day conduct of business standards to be observed by authorised persons in carrying on regulated activities.

The FSA updated its Conduct of Business Rules on 1 November 2007 in response to the adoption in the EU of the Markets in Financial Instruments Directive ("MiFID"). The new Conduct of Business Rules incorporate the requirements of MiFID, which relate to investment business.

The scope and range of obligations imposed on an authorised firm under the Conduct of Business Rules vary according to the scope of its business and the range of its clients. Generally speaking, however, the obligations imposed on an authorised firm by the Conduct of Business Rules will include the need to classify its clients according to their level of sophistication, provide them with information about the firm, meet certain standards of product disclosure, ensure that promotional material which it produces is clear, fair and not misleading, assess suitability when advising on certain products and managing portfolios, manage conflicts of interest, report appropriately to its clients and provide certain protections in relation to client assets.

The FSA's Supervision Manual contains specific requirements at Appendix 2.15 for insurers that have ceased to take on new business and are in run-off. Equally some of the FSA's Conduct of Business Rules, for example in relation to the sale of new policies, have no relevance to such companies.

3.4 Treating Customers Fairly ("TCF")

TCF is an important example of the FSA's principles-based approach to regulation. This initiative is based upon Principle 6 of the FSA's Principles for Businesses (that a firm must pay due regard to the interests of its customers and treat them fairly). The FSA has defined six outcomes it is seeking from this initiative. These are that:

- consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture;
- products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly;
- consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale;
- where consumers receive advice, the advice is suitable and takes account of their circumstances;
- consumers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect; and
- consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

Although the FSA has, with the exception of rules relating to with profit policyholders, refrained from making detailed rules on how to comply with TCF, it has published a number of case studies providing an indication of its expectations of authorised firms in the areas of product development, complaint handling, financial promotions and systems and controls. In addition, the FSA set two new deadlines for firms – authorised firms were expected by 31 March 2008 to have appropriate management information or measures in place to test whether or not they were treating their customers fairly; and by 31 December 2008 firms must have demonstrated they were consistently treating customers fairly.

The Group met the deadline of having appropriate management information in place by 31 March 2008 and has continued to develop it in line with its desire generally to improve customer outcomes. A self assessment was undertaken to consider if TCF had been embedded in the organisation by December 2008 in order to meet the FSA deadline. The conclusion of that review was that while the Group would continually strive to improve outcomes for its customers, TCF had been embedded in both its retained and outsourced operations. That report was presented and accepted by the boards of the Group's life companies.

3.5 Prudential supervision

As set out above, in order to maintain authorised status under FSMA, a firm must continue to satisfy the threshold conditions, which, among other things, require the firm to have adequate resources for the carrying on of its business. The FSA has published detailed rules relating to the maintenance of minimum levels of regulatory capital for insurance and investment businesses in the Prudential Standards section of its Handbook.

The FSA's regulatory capital rules for insurers and investment firms are primarily contained in the FSA's General Prudential Sourcebook, Prudential Sourcebook for Banks, Building Societies and Investment Firms and Prudential Sourcebook for Insurers. Although it has been the intention in recent years of the FSA to move towards a unified prudential regime for firms that it authorises, the FSA has been obliged to revise this approach and its rules to accommodate developments at an international level, including EU legislation relating to the regulatory capital requirements for investment firms and financial groups.

3.6 The Financial Ombudsman Service

Authorised firms must have appropriate complaints handling procedures. However, once these procedures have been exhausted, qualifying complainants may turn to the FOS which is intended to provide speedy, informal and cost effective dispute resolution of complaints made against authorised firms by individuals and small-business customers. The FOS is empowered to order firms to pay fair compensation for loss and damage and may order a firm to take such steps as it determines to be just and appropriate to remedy a complaint.

3.7 The Financial Services Compensation Scheme ("FSCS")

The FSCS is intended to compensate individuals and small businesses for claims against an authorised firm where the authorised firm is unable or unlikely to be able to meet those claims (generally, when it is insolvent or has gone out of business). The scheme is divided into three sub-schemes of banking, insurance and investment business, reflecting the different kinds of business undertaken by authorised firms. The scheme is funded by contributions from industry participants referable to the particular sub-schemes so as to minimise cross-subsidy between authorised persons whose businesses are not similar. In the event of a failure of a market participant, the Group could be required to make contributions to compensate investors. In November 2007, the FSA confirmed its intention to introduce a new model of funding, under which the first tranche of compensation costs emerging from a particular group of firms is borne by that group alone, while costs above a specified threshold are shared out more widely. The new FSCS funding model came into force on 1 April 2008.

In a consultation paper published in 2007 (CP07/5) relating to general insurance companies the FSA proposed a 75 per cent. to 25 per cent. split of the FSCS levy according to premium income and mathematical reserves/gross technical liabilities. This proposal was not implemented, although the FSA indicated that further research would be carried out. The FSA considered it appropriate to include a measure of reserves in the long-term. A further consultation paper on this subject may, in due course, be published, although the subject is not on the FSA's current consultation timetable. Any future changes in levy arrangements might affect general insurance companies in the Group.

3.8 The Alternative Investment Fund Managers ("AIFM") Directive

On 30 April 2009 the EU Commission published its proposed AIFM Directive (the "first draft Directive"). The first draft Directive has been the subject of much political debate and on 11 March 2009 the Presidency of the European Council published the latest compromise proposal which revised the first draft Directive. The revised draft Directive will apply to any EU entity that provides investment management services to one or more alternative investment funds ("AIF"), whether the AIF is domiciled inside or outside the EU. An AIF will include any kind of collective investment undertaking, including compartments thereof, which (i) raises capital from a number of investors to invest for their benefit in accordance with a defined investment policy and (ii) does not require authorisation pursuant to the re-cast UCITS Directive (2009/65/EC). Funds that Ignis Asset Management manages will therefore fall within the definition of an AIF.

According to the revised draft Directive, investment firms already authorised under MiFID, such as Ignis Asset Management, will not be required to obtain authorisation to manage AIFs. However, investment firms which manage AIFs will be subject to additional regulatory capital charges depending upon the value of assets under management, but with a ceiling of Euro 10 million, and to liquidity requirements. In addition, they will have to comply with new conduct of business rules governing, among other things, conflicts of interest, risk, portfolio administration, remuneration and liquidity management. Authorised AIF managers will also need to ensure that for each AIF they manage, the investment strategy and the liquidity profile are consistent with the objectives and the risk profile of the AIF, as well as ensuring that appropriate and consistent procedures are established for the valuation of assets. The revised draft Directive also provides that all AIFs managed by authorised AIF managers will be required to have an authorised depositary to receive all subscriptions and hold all financial instruments of the AIF. Authorised AIF manger's remuneration policies for key staff will be required to align compensation to performance and risk management together with containing restrictions on guaranteed bonuses and requirements to defer payments of variable remuneration.

On 16 March 2010 the EU finance ministers agreed to defer the decision on the revised draft Directive until further work on the proposed compromise and it is therefore highly likely that the revised draft Directive will be further amended before its provisions are finalised. The main issue is how to regulate managers and funds based outside the EU and whether approved funds could operate freely within the EU. It seems unlikely that this Directive will be implemented in the national laws of each Member State before 2012.

3.9 The recast UCITS Directive

The re-cast UCITS Directive, published on 19 November 2009 and to be transposed into national law and take effect in each Member State of the EU on 1 July 2011, is expected to simplify the regulatory environment applicable to UCITS by reducing administrative barriers for cross-border marketing of funds, creating cost savings by allowing economies of scale, improving co-operation mechanisms between national supervisors and providing increased investor protection by making sure that retail investors obtain more appropriate information about their investments.

4 ADDITIONAL REGULATION OF INSURANCE BUSINESS

Effecting and carrying out contracts of insurance as principal are regulated activities for the purposes of FSMA, and the carrying on of such regulated activities is referred to as insurance business. Some of the Company's subsidiaries carry on insurance business in the UK with the permission of the FSA and are regulated by the FSA under FSMA.

4.1 Conduct of Business requirements for insurance business

The Conduct of Business Rules issued by the FSA apply differing requirements to the sale of (i) general and (ii) long-term insurance contracts. Within (ii), more stringent requirements apply where the contract has an investment value or otherwise gives rise to mis-selling problems. Authorised firms which advise and sell packaged products (such as life insurance policies) are subject to detailed conduct of business obligations relating to product disclosure, assessment of suitability for private customers, the range and scope of the advice which the firm provides, and fee and remuneration arrangements.

In general, the Conduct of Business Rules govern the sale of new policies and do not concern an insurer in run-off. They include, however, certain rules relating to:

- information to be provided to existing policyholders;
- cancellation rights;
- the handling of claims;
- treating with profit policyholders fairly; and
- pensions transfers and the open market option,

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

4.2 Capital rules for insurers

The FSA's rules which govern the prudential regulation of insurers are found in the Prudential Sourcebook for Insurers, the General Prudential Sourcebook and the Interim Prudential Sourcebook for Insurers. Overall, the requirements of the General Prudential Sourcebook are intended to align the capital adequacy requirements for insurance businesses more closely with those of banking and investment firms and building societies, for example, by addressing tiers of capital, rather than looking at net admissible assets.

The FSA's rules now require an insurer to prepare and submit to the FSA its own assessment of its capital requirements, known as an Individual Capital Assessment ("ICA"), based on the risks it faces. The FSA will use the ICA in order to form its own view (at Pillar 2) of a firm's capital requirements and if it disagrees with the ICA it will issue Individual Capital Guidance ("ICG") which it can impose as a requirement over and above Pillar 1 requirements. The Group's life companies are operated with an internally set additional buffer over the ICA (currently 33 per cent. for Phoenix Life Limited, the Group's largest life company).

The Pillar 1 rules also require that insurance companies maintain assets sufficient to meet the relevant capital requirement at all times in respect of both any long-term insurance and general insurance undertaken by the insurance company, the calculation of which requirement in any particular case being dependent on the type and amount of insurance business a company writes. The method of calculation of the Pillar 1 capital requirement is set out in the General Prudential Sourcebook and the level of an insurer's capital resources is also determined in accordance with the rules set out in that Sourcebook. Failure to maintain the Pillar 1 required capital resources requirement (or any additional requirements imposed at Pillar 2) is one of the grounds on which wide powers of intervention conferred upon the FSA may be exercised.

Under the Pillar 1 rules in the General Prudential Sourcebook, an insurer must hold capital resources equal at least to the MCR. Insurers with with profit liabilities of £500 million or more ("realistic basis firms") must hold capital equal to the higher of MCR and the Enhanced Capital Requirement (the "ECR"). The ECR is intended to provide a more risk responsive and "realistic" measure of a with profit insurer's capital requirements, whereas the MCR is broadly speaking equivalent to the previous required minimum margin under the Interim Prudential Sourcebook for Insurers and satisfies the minimum EU standards.

Determination of the ECR for realistic basis firms involves the comparison of two separate measurements of the firm's financial resources requirements, which the FSA refers to as the "twin peaks" approach. The term twin peaks is meant to reflect the fact that capital is determined by reference to the higher of the two bases for calculating liabilities (regulatory or realistic). The regulatory basis reflects strict contractual liabilities whereas the realistic basis includes more discretionary but expected benefits, including those required to treat customers fairly.

Long-term business assets and liabilities – those assets and liabilities relating to, broadly, life and health insurance policies – must be segregated from the assets and liabilities attributable to non-life insurance business or to shareholders. Separate accounting and other records must be maintained and a separate fund must be established to hold all receipts of long-term business.

The extent to which long-term fund assets may be used for purposes other than long-term business is restricted by the rules in the Prudential Sourcebook for Insurers. Only the "established surplus" – the excess of assets over liabilities in the long-term fund, as determined by an actuarial investigation – may be transferred so as to be available for other purposes. Restrictions also apply to the payment of dividends by the insurance company, as described below. The rules in the Prudential Sourcebook for Insurers require, in addition to the capital requirements referred to below, the maintenance of sufficient assets in the separate long-term insurance fund to cover the actuarially determined value of the insurance liabilities. See also "Insurance Groups Directive" below.

The FSA is already requiring insurance companies to make preparations for the new EU Solvency Framework (the main aspects of this framework are described in Part II: "Risk Factors—Risks related to the Group—Various new reforms to the legislation and regulation relating to the UK life insurance and asset management industries have been proposed that could adversely affect the Group").

4.3 Actuarial functions

The rules in the FSA's Supervision Manual require that every insurance company that carries on long-term business must appoint one or more actuaries to perform the "actuarial function" in respect of all classes of its long-term insurance business and, if it has any with profit business, the "with profit actuary function" in respect of all classes of that with profit business.

The actuary performing the "actuarial function" must prepare an annual report for the Directors quantifying the company's long-term liabilities attributable to the insurance company's long-term insurance business, determining the value of any excess over those liabilities of the assets representing the long-term insurance fund and where any rights of long-term policyholders to participate in profits relate to particular parts of such a fund, a valuation of any excess of assets over liabilities in respect of each of those parts.

The actuary performing the with profit actuary function must advise the firm's management, at the level of seniority that is reasonably appropriate, on key aspects of the discretion to be exercised affecting those classes of the with profit business of the firm in respect of which he has been appointed. He must also, at least once a year report to the firm's governing body on key aspects (including those aspects of the firm's application of its Principles and Practices of Financial Management ("PPFM") on which the advice described has been given) of the discretion exercised in respect of the period covered by his report affecting those classes of with profit business of the firm.

4.4 Distribution of profits and with profit business

The Interim Prudential Sourcebook for Insurers provides that, once an allocation of surplus in a with profit fund has been made to policyholders, no transfer of assets representing any part of a subsequent surplus can be made, to shareholders or otherwise, unless either the "relevant minimum" (as defined in the Interim Prudential Sourcebook for Insurers) of the surplus has been allocated to policyholders or a statutory notification procedure has been followed. Calculation of the relevant minimum is based upon the percentage of the relevant surplus previously allocated to eligible policyholders.

There has been considerable public debate regarding the rights and legitimate expectations of with profit policyholders to assets forming part of an insurance company's surplus, particularly where such assets do not derive from the payment of current policyholders' premiums but are rather "inherited" from previous generations of policyholders or from other entities. In December 2007, the FSA published guidance on the reattribution of a firm's inherited estate. In July 2009, the FSA confirmed the proposals contained in its February 2009 consultation paper, that proprietary (as opposed to mutual) firms should no longer be able to charge mis-selling costs to the inherited estate where those costs are incurred after July 2009. Further proposals for reforms to the with profit regime may follow.

The FSA has also mandated that firms carrying on with profit business must:

- define and make publicly available the PPFM applied in their management of with profit funds;
- ensure their governance arrangements offer assurance that they have managed their funds in line with the PPFM they have established and published;
- produce annual reports for with profit policyholders on how they have complied with this obligation, including how they have addressed any competing or conflicting rights, interests or expectations of policyholders and, if applicable, shareholders;
- comply with (i) modified regulatory reporting requirements designed to achieve the FSA's objective of making directors and senior management more explicitly responsible for setting up technical provisions and other decisions taken on actuarial advice and (ii) new audit requirements for liabilities; and
- comply with consequential changes to certification in the insurance returns.

Since 1 April 2004, firms carrying on with profit business have been required to produce the PPFM and to make them publicly available. From the same date, firms have also been required to have in place the relevant governance arrangements and reporting procedures to with profit policyholders.

4.5 TCF and with profit business

One of the areas of focus of the FSA's TCF initiative has been with profit business. The FSA has issued specific rules on this area in relation to with profit policyholders, which address, among other things, the costs charged to a with profit fund by the firm managing the fund; penalties and charges levied on policyholders who surrender their policies early, the need for funds to be managed with the objective of ensuring that maturity payouts fall within a target range set for the fund; and the provision of information to with profit policyholders or potential policyholders in a format that they can more readily understand – through the introduction of "Consumer Friendly Principles and Practices of Financial Management".

In addition, life insurers writing with profit business must provide information to with profit policyholders within 28 working days of a decision to close a fund to new business or of the appointment of a policyholder advocate to protect the interest of policyholders should a firm decide to make a reattribution of its inherited estate.

4.6 Reporting requirements

The main financial reporting rules for insurers are contained in the Interim Prudential Sourcebook for Insurers. Insurance companies must file a number of items with the FSA, including their audited annual accounts and balance sheets and life insurers annual reports from the actuary performing the actuarial function.

4.7 Transfer of insurance business

Any transfer of UK insurance business must be effected in accordance with Part VII of FSMA, which requires a scheme of transfer to be prepared and approved by the High Court. As a practical necessity, FSA approval is also required in addition to an order by the court approving the transfer, and a report of an independent expert is required on whether the proposed transfer would be prejudicial to policyholders. A Part VII scheme of transfer enables direct insurers and reinsurers to transfer all or part of their books of business to another approved insurer by operation of law without the need for individual policyholder consents, although policyholders have the right to object to the proposed scheme at the court hearing. A scheme of transfer may also allow for the transfer of assets and other contracts related to the business so as to give proper effect to the transfer. A transfer of insurance business means a transfer of insurance policies and should be distinguished from the change of control of a business effected by a transfer of shares in an insurance company.

4.8 Insurance Groups Directive ("IGD")

A group of companies whose activities are primarily concentrated in the insurance sector in a member state of the EEA is subject to the capital adequacy requirements of the IGD. This directive sets forth the requirement for a group capital adequacy calculation, also known as a group solvency calculation, a parent undertaking solvency margin calculation or an IGD solvency surplus. The IGD requires that EEA-regulated insurance entities, in certain circumstances, prepare and submit to their relevant EEA-regulatory supervisor a group capital adequacy calculation. This calculation is intended to enable an insurer's regulatory supervisor to assess both the level of insurance and financial risk within the insurance group and the resources available to cover this risk. Where insufficient group resources are available, the supervisor may consider the risk to the insurers that it regulates.

Under the FSA's rules implementing the IGD, each FSA-regulated insurance entity is required to assess whether any group solvency calculations are required at two levels, one at the level of the ultimate worldwide insurance parent undertaking and, if different, the highest EEA-regulated insurance parent undertaking.

The Company's head office is in Jersey in the Channel Islands which is not part of the EEA. It qualifies as an "insurance holding company". The Group's FSA-authorised firms are therefore required to submit two group capital adequacy calculations to the FSA:

- one for the highest insurance parent undertaking located outside the EEA, that is, for the Company and its subsidiaries; and
- one for the highest insurance parent undertaking located within the EEA, that is, for Phoenix Life Holdings and its subsidiaries.

However, the group solvency calculation for a non-EEA insurance parent undertaking is currently a "soft test" (i.e., a reporting requirement) only. In other words, the group solvency calculation at this level must be submitted to the FSA, but the group solvency position need not meet or exceed it, unless the FSA imposes a requirement to that effect. See also "—Capital rules for insurers" above.

4.9 New EU solvency framework equivalence consideration

The EU Commission is continuing to develop a new prudential framework for insurance companies, the Solvency II project. This project will update, among other things, the existing EU life, non life, reinsurance and insurance groups directives. The main aims of this framework are to ensure the financial stability of the insurance industry and protect policyholders through establishing prudential requirements better matched to the true risks of the business. Like Basel 2, the new approach is expected to be based on the concept of three pillars: quantitative requirements (the amount of capital an insurer should hold), qualitative requirements on undertakings such as risk management as well as supervisory activities; and enhanced disclosure and transparency requirements. It is also directionally consistent with Pillar 2, being on an economic capital basis.

However, the scope of the Solvency II project is wider than Basel 2. It will contain rules, many of which are new, covering, among other things:

- technical provisions against insurance and reinsurance liabilities;
- the valuation of assets and liabilities;
- a higher and more risk sensitive solvency capital requirement (''SCR'') and the maintenance of a minimum capital requirement (''MCR'');
- what capital instruments (''own funds'') are eligible to cover technical provisions, the MCR and the SCR, and to what extent specific tiers of capital instruments may so count;
- what capital instruments or assets are to be treated as being restricted to specific uses and not therefore fungible or transferable across the firm's entire operations;
- to what extent a firm's capital models may be used to calculate the SCR;
- governance requirements including risk management processes;
- requirements covering (i) matters to be reported privately to the firm's supervisor leading to a full supervisory review process and (ii) matters to be published in a ''Solvency and Financial Condition Report'';
- rules providing for the SCR to be supplemented by a ''capital add-on'' in appropriate cases, the add-on to be imposed by the relevant supervisor (the FSA in the case of UK firms);
- rules on insurance products which are linked to the value of specific property or indices (''unit linked products'');
- the application of the above requirements across insurance groups, including a specific regime for insurance groups with centralised risk management and an enhanced role for the ''group supervisor'' of international groups, who will be required to work in conjunction with a ''college of supervisors responsible for specific solo members of the group; and
- provision for the supervision of insurance groups headed by an insurance company or insurance holding company with a head office outside the EEA.

The Solvency II directive containing the outlines of the above regime was formally adopted in November 2009. It is to be supplemented by further more detailed rules at level 2. The Committee of European Insurance and Occupational Pensions Supervisors (''CEIOPS'') has delivered final advice to the EU Commission on the proposed content of the level 2 rules. The EU Commission is expected to follow the majority, but not necessarily the whole of this advice. The advice does not cover the important issue as to the extent to which capital instruments which comply with existing requirements may be grandfathered into the Solvency II regime.

Moreover the final version of the rules is expected to be influenced by the outcome of a fifth series of quantitative impact studies to be carried out by the EU Commission in the late summer or early autumn of 2010.

Apart from rules at level 1 and 2, CEIOPS has now started consulting on non-binding standards and guidance at level 3.

Many insurance companies and insurance groups expect to benefit from using internal models to calculate their SCR (or specific elements or lines of business within the SCR). However, they require supervisory approval to do this. The process of obtaining that approval is a rigorous one involving a full review of the firm's governance arrangements and proof that the internal modelling is fully used within the firm's business. Apart from this the FSA has suggested that firms should be undertaking ''gap analyses'' to aid their transition from the existing regulatory regime, and to identify any shortfalls in expected compliance with the emerging Solvency II requirements, as they bear on their operations.

The FSA published a discussion paper in September 2008 and a feedback statement setting out its expectations as to how firms should prepare for the transition to the new regime. This has been followed up by further publications.

The Group has fully embraced the requirements of the Solvency II project and has participated in various preparatory studies. The Group has a well-formed project dealing with the implementation of the new regime.

The Group is actively monitoring proposals as they develop and participates in feedback provided from the industry to the regulators. The Directors expect Solvency II to result in an improved understanding of the link between risk and capital management and welcomes the increased focus on risk management that Solvency II will bring. The Directors are, however, concerned that the recent final advice from CEIOPS is more conservative than the Level 1 Framework Directive and more onerous than the existing Pillar 2 regime. As currently drafted, the technical specifications would result in a significant increase in the capital requirements of the industry. The Group is currently working with the Association of British Insurers and other UK insurers through membership of the Solvency II working group with a view to ensuring that the final specifications are appropriate for the UK insurance market. In April 2010 the EU Commission published for consultation its draft technical specifications for the fifth quantitative impact study (QIS5) which test the impact of the new regime under Solvency II. This has departed from CEIOPS advice in a number of respects, suggesting that the EU Commission may in some crucial areas relax the level of prudence recommended by CEIOPS. Further calibration of capital requirements is expected following the QIS5 results.

The framework includes a new regime for insurance groups and specific provision for groups the parent undertakings of which have their head offices outside the EEA. This applies to the Company, as its head office is in Jersey, which is outside the EEA.

The treatment of such groups depends *inter alia* on whether the jurisdiction in which the parent has its head office is determined to have an equivalent regime. Equivalence is assessed under three distinct provisions of the Solvency II directive:

1. For the purpose of determining whether reinsurance ceded to a solo insurer or reinsurer authorised in that jurisdiction should be treated in the same way as reinsurance ceded to an EEA firm.
2. For the purpose of determining whether in applying the deduction/aggregation method of determining group capital adequacy a non-EEA firm in the group such as Opal Re should (i) be treated as if it were an EEA firm or whether (ii) its contribution to group capital adequacy may be determined by reference to local rules.
3. For the purpose of determining whether the standard of group supervision in the jurisdiction concerned is equivalent to EEA standards.

In relation to item 2 above, if EEA rules, rather than local rules, were to be applied the effect might be to reduce the extent to which a non-EEA member of the group such as Opal Re contributes to group capital adequacy.

In relation to item 3 above, where the jurisdiction in question is determined to be equivalent, reliance will be placed within the EEA on group supervision within that jurisdiction, subject to arrangements for exchange of information and co-operation.

If the jurisdiction is not determined to be equivalent the group in question may be supervised as if it were an EEA group. This would, among other things, result in group capital adequacy at ultimate parent level (i.e., in this case at the level of the Company) being transformed from a soft reporting requirement to a hard regulatory requirement. Article 262 of the Solvency II directive, however, provides that "other methods may be used which ensure appropriate supervision of the insurance and reinsurance undertakings in a group".

4.10 Regulation of investment business

Certain of the Group's subsidiaries, including Ignis Investment Services Limited, Ignis Fund Managers Limited and Ignis Investment Management Limited, are authorised by the FSA to carry on investment business. These entities are subject to regulation and supervision by the FSA and must comply with the FSA conduct of business and prudential rules made under FSMA.

4.11 Conduct of Business requirements for investment businesses and the Markets in Financial Instruments Directive

MiFID, unlike its predecessor legislation, the Investment Services Directive, sets out detailed and specific requirements in relation to organisational and conduct of business matters for investment firms and regulated markets. In particular, MiFID and its implementing measures make specific provision in relation to, among other things, organisational requirements, outsourcing, customer classification, conflicts of interest, best execution, client order handling and suitability and appropriateness, and investment research and financial analysis, pre- and post-trade transparency obligations, transaction reporting and substantial changes to the responsibility for the supervision of cross border investment services.

As noted above, changes to the FSA's Conduct of Business Rules came into effect on 1 November 2007 in accordance with the requirements of MiFID. Although MiFID does not apply to insurance businesses, it has driven changes to the FSA's Conduct of Business Rules, including those that apply to insurance businesses.

4.12 Capital requirements for investment businesses

The FSA's capital requirements for investment businesses are also contained in the Prudential Standards section of its Handbook, primarily in the General Prudential Sourcebook and the Prudential Sourcebook for Banks, Building Societies and Investment firms. These rules implement the requirements of EU legislation relating to the prudential supervision of investment firms, including the Capital Adequacy Directive (Directive 93/6/EEC), as re-cast by the Capital Requirements Directive (Directive 2006/49/EC).

5 BERMUDIAN INSURANCE REGULATION

5.1 Overview

The Bermuda Insurance Act 1978 and related regulations, as amended (the "Insurance Act"), regulate the insurance business of Opal Re and provide that no person may carry on any insurance business in or from within Bermuda unless registered as a long-term insurer by the BMA under the Insurance Act. Opal Re is registered as a long-term insurer by the BMA. The continued registration of an applicant as an insurer is subject to compliance with the terms of its registration and such other conditions as the BMA may impose from time to time.

The Insurance Act also imposes solvency and liquidity standards and auditing and reporting requirements on Bermudian insurance companies. Certain aspects of the Bermudian insurance regulatory framework are summarised below.

5.2 Cancellation of insurer's registration

An insurer's registration may be cancelled by the Supervisor of Insurance of the BMA on certain grounds specified in the Insurance Act, including failure of the insurer to comply with its obligations under the Insurance Act.

5.3 Principal representative

An insurer is required to maintain a principal office in Bermuda and to appoint and maintain a principal representative in Bermuda. Opal Re's principal office is its executive offices at the Argus Insurance Building, 14 Wesley Street, Hamilton, Bermuda, and its principal representative is Northstar Group Holdings Ltd, a Bermuda based reinsurance group that also provides insurance management services to Opal Re.

5.4 Independent approved auditor

Opal Re, as a registered insurer, must appoint an independent auditor to audit and report annually on the statutory financial statements and the statutory financial return of the insurer, both of which are required to be filed annually with the BMA. Opal Re's auditor is KPMG.

5.5 Insurer's approved actuary

Long-term insurers such as Opal Re cannot carry on long-term business without an approved actuary (referred to in the Insurance Act as the "insurer's approved actuary"). An insurer's approved actuary must be approved by the BMA. Opal Re's approved actuary is Robert Holliday of KPMG.

5.6 Annual statutory financial return and statutory financial statements

Under the Insurance Act, Opal Re is required to file annually a statutory financial return and financial statements within four months from its financial year end, which may be extended on application to seven months. The statutory financial return includes the auditor's report on the financial statements and a certificate of the approved actuary on the liabilities recorded in the financial statements.

5.7 Minimum margin of solvency and restrictions on dividends and distributions

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

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

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

5.8 Supervision, investigation and intervention

The BMA has wide powers of investigation and document production in relation to Bermudian insurers under the Insurance Act. For example, the BMA may appoint an inspector with extensive powers to investigate the affairs of Opal Re if the BMA believes that such an investigation is in the best interests of its policyholders or persons who may become policyholders.

5.9 Disclosure of information

The BMA may assist other regulatory authorities, including foreign insurance regulatory authorities, with their investigations involving insurance and reinsurance companies in Bermuda, but is subject to restrictions. For example, the BMA must be satisfied that the assistance being requested is in connection with the discharge of regulatory responsibilities of the foreign regulatory authority. Further, the BMA must consider whether cooperation is in the public interest. The grounds for disclosure are limited, and the Insurance Act provides sanctions for breach of the statutory duty of confidentiality.

PART VII: EMBEDDED VALUE INFORMATION

This Part VII contains:

1. *A copy of an audit opinion from Ernst & Young LLP to the Directors of the Company in respect of the MCEV supplementary information of the Group for the year ended 31 December 2009, such opinion having originally been dated 30 March 2010 and published on 31 March 2009 in the Group's annual report and accounts for the year ended 31 December 2009.*
2. *MCEV supplementary information on the Group for the year ended 31 December 2009.*

Commentary on MCEV supplementary information of the Group for the year ended 31 December 2009

Basis of preparation

In addition to presenting the Group results and financial position under IFRS as set out in the Annex, the Group also uses MCEV as an additional performance measure. The Board considers that the MCEV methodology represents a more meaningful basis of reporting the value of the Group's life companies and the drivers of performance than the IFRS methodology.

Given the acquisition of OPB partway during the year, the Board considered it helpful to present what would have been the twelve month result had OPB been acquired on 1 January 2009. The MCEV financial information represents the statutory result of Phoenix Group Holdings together with the results of OPB prior to their acquisition by Phoenix Group Holdings.

Further details of the basis of preparation are set out on pages 97 to 100 of the MCEV supplementary information.

The following MCEV supplementary information has been extracted without material adjustment, with the exception of page numbers, formatting of headings, tables and text, and references thereto, from, and should be read together with, the Group's annual report and accounts for the year ended 31 December 2009. For the purposes of the remainder of this Part VII: "Embedded Value Information" only, OPB shall be defined as the "Pearl businesses", Directors shall be defined as "Directors" or "directors", the Group shall be defined as the "Group" or the "Phoenix Group" and terms otherwise defined or capitalised in this Part VII: "Embedded Value Information" shall not apply to the other Parts of or the Annex to this Prospectus. The MCEV supplementary information below should also be read together with the information included in this document, Part VIII: "Operating and Financial Review" and the Annex. Shareholders are advised to read the whole of this document and not rely solely on the information in this Part VII: "Embedded Value Information".

Management actions and key components of value

The Group has targeted an embedded value uplift of £300 million from 31 December 2008 to 31 December 2010. £155 million of this uplift was achieved in the year ended 31 December 2009 through fund restructuring (£75 million), regulatory and legacy issue management (£30 million), tax management (£25 million) and outsourcer management (£25 million) demonstrating a strong embedded value performance in challenging markets.

The Directors believe that in addition to MCEV, there are other elements that should be taken into account when assessing the Group's value. These include the value of future cash flows generated by Ignis Asset Management (estimated at £377 million based on the value in force as included in the embedded value calculation calculated under the previously adopted methodology ("CEV") as at 31 December 2009) and management services companies (being PGMS and PGS) (estimated at £246 million based on the value in force as included in the embedded value calculation calculated under CEV as at 31 December 2009), potential future management actions and vesting annuities.

1 AUDITOR'S REPORT TO THE DIRECTORS OF PHOENIX GROUP HOLDINGS ON THE PRO FORMA CONSOLIDATED PHOENIX GROUP MARKET CONSISTENT EMBEDDED VALUE (MCEV)

We have audited the Pro forma Consolidated Phoenix Group MCEV (Phoenix Group MCEV) supplementary information, on pages 92 to 104, in respect of the year ended 31 December 2009, which comprises the Summarised consolidated income statement – pro forma Group MCEV basis, Pro forma MCEV earnings per ordinary share, Statement of consolidated comprehensive income – pro forma Group MCEV basis, Reconciliation of movement in pro forma Group MCEV equity and the related notes. The Phoenix Group MCEV supplementary information, has been prepared in accordance with the basis of preparation set out on pages 97 to 100.

Ernst & Young Accountants LLP have reported separately on the IFRS consolidated financial statements of Phoenix Group Holdings for the year ended 31 December 2009.

This report is made solely to the Company's Directors in accordance with our engagement letter dated 26 March 2010. Our audit work has been undertaken so that we might state to the Company's Directors those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Directors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' responsibilities on page 160 of the Group's annual report and accounts for the year ended 31 December 2009, the directors are responsible for preparing the Phoenix Group MCEV supplementary information, under the basis of preparation set out on pages 97 to 100.

Our responsibilities, as independent auditors, in relation to the Phoenix Group MCEV supplementary information, are established in the UK by the Auditing Practices Board, our profession's ethical guidance and the terms of our engagement letter.

We report to you our opinion as to whether the Phoenix Group MCEV supplementary information, has been properly prepared in all material respects in accordance with the basis of preparation set out on pages 97 to 100. We also report to you if we have not received all the information and explanations we require for our audit of the Phoenix Group MCEV supplementary information.

We read other information contained in the Annual Report & Accounts and consider whether it is consistent with the Group MCEV supplementary information.

Basis of audit opinion

We conducted our audit having regard for International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Phoenix Group MCEV supplementary information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Phoenix Group MCEV supplementary information, and of whether the accounting policies are appropriate to the Phoenix Group Holdings' circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Phoenix Group MCEV supplementary information is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the Phoenix Group MCEV supplementary information.

Opinion

In our opinion the Phoenix Group MCEV supplementary information, for the year ended 31 December 2009, has been properly prepared, in all material respects, in accordance with the basis of preparation set out on pages 97 to 100.

Ernst & Young LLP.

Ernst & Young LLP

London

30 March 2010

2 MCEV SUPPLEMENTARY INFORMATION ON THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2009

2.1 Summarised consolidated income statement – pro forma Group MCEV basis

For the year ended 31 December 2009

	2009 £m
Life MCEV operating earnings	380
Management services operating profit	14
Ignis Asset Management operating profit	34
Corporate operating loss	(54)
Group MCEV operating earnings before tax	**374**
Economic variances on covered business	701
Economic variances on non-covered business	(245)
Non-recurring items	(78)
Gain on debt refinancing	491
Finance costs attributable to owners	(390)
Group MCEV earnings before tax	**853**
Tax on operating earnings	(105)
Tax on non-operating earnings	(197)
Total tax	(302)
Group MCEV earnings	**551**

2.2 Pro Forma MCEV earnings per ordinary share

For the year ended 31 December 2009

	2009
Group MCEV operating earnings after tax	
Basic[(1)]	291.5p
Diluted[(2)]	254.4p
Group MCEV earnings after tax	
Basic[(1)]	597.2p
Diluted[(2)]	521.1p

1 Based on 92,269,310 shares
2 Based on 105,732,020 shares, allowing for warrants in issue

The earnings on covered business are calculated on a post-tax basis and are grossed up at the effective rate for shareholder tax for presentation in the income statement. The tax rate used is the UK corporate tax rate of 28%.

2.3 Statement of consolidated comprehensive income – pro forma Group MCEV basis

For the year ended 31 December 2009

	2009 £m
Group MCEV earnings for the year after tax	**551**
Other comprehensive income	
Actuarial losses on defined benefit pension schemes	(14)
Exchange differences on translating foreign operations	(44)
	(58)
Total comprehensive income for the year	**493**

2.4 Reconciliation of movement in pro forma Group MCEV equity

For the year ended 31 December 2009

	2009 £m
Pro forma Group MCEV equity at 1 January 2009	1,044
Total comprehensive income for the year	**493**
Issue of share capital	275
Conversion of warrants into ordinary shares	51
Redemption of shares	(41)
Credit to equity for equity-settled share-based payments	5
Group MCEV equity at 31 December 2009	**1,827**

2.5 Analysis of movement in pro forma Group MCEV equity

(a) Life MCEV operating earnings

		2009 £m
Life MCEV operating earnings (after tax)		
Expected existing business contribution		95
New business value		22
Non-economic experience variance and assumption changes		
– Experience variances	62	
– Other operating variances	21	
– Assumption changes	73	
Total non-economic experience variances and assumption changes		156
Life MCEV operating earnings after tax[1]		273

(1) Life MCEV operating earnings is derived on an after tax basis. For presentational purposes Life MCEV operating earnings before tax has been calculated by grossing up the after tax Life MCEV operating earnings using a tax rate of 28%. Life MCEV operating earnings before tax of £380 million is therefore calculated as £273 million (as above) grossed up for tax at 28%.

(i) Expected existing business contribution

The expected contribution of the existing business for the year ended 31 December 2009 was £95 million after tax. This represents the expected return on the opening MCEV using a one year gilt forward rate plus the Group's short-term expectations of excess investment returns on equities, properties and bonds. This rate is expected to increase in line with the forward gilt yield curve.

(ii) New business value

New business profits generated during the year amounted to £22 million after tax and represent the value of vesting pension policies not reflected in the opening MCEV. These arise from pension policies which have no attaching annuity guarantees.

The new business margin is 5% after tax and represents the ratio of the net of tax new business value to the amount received as new single premiums.

(iii) Non-economic experience variances and assumption changes

The life companies' non-economic experience variances and assumption changes for the year ended 31 December 2009 contributed £156 million to pro forma MCEV operating earnings after tax.

Favourable experience and other operating variances of £83 million primarily related to several management actions including the resolution of certain legacy issues, partially offset by the strengthening of regulatory capital requirements and capital policy in some life companies following the acquisition of the Pearl businesses by Phoenix Group Holdings. Favourable assumption changes of £73 million mainly related to harmonisation of longevity assumptions across the Group and the results of an annuitant survival investigation.

(b) Ignis Asset Management operating profit

Ignis Asset Management's performance was favourable throughout the year generating a pro forma IFRS operating profit before tax of £34 million.

(c) Corporate operating loss

The Corporate operating loss of £54 million before tax for the year ended 31 December 2009 includes:

- Corporate office costs and project spend of £14 million; and
- Net expected charge on the Pearl Group Staff Pension Scheme of £22 million and a £17 million contribution to the PGL pension scheme. The £17 million contribution is an expense under the Group's MCEV methodology as a deduction to the Group MCEV is made for pension schemes in deficit, but no credit is taken for pension scheme surpluses.

(d) Economic variances on covered business

Positive economic variances in 2009 of £504 million after tax reflect the benefit of the reduction in credit spreads on corporate bonds and favourable equity and yield movements, partially offset by an increase of £36 million in the market value of listed debt issued by Phoenix Life Limited (ex-Scottish Mutual Assurance).

(e) Economic variances on non-covered business

The economic variances on non-covered business of £245 million before tax primarily relate to the increase in the market value of listed debt issued by the Group's subsidiary Pearl Group Holdings (No. 1) Limited and Phoenix Group Holdings warrants, which reduced MCEV earnings by £169 million and £51 million respectively. In addition, the economic variances include a £29 million foreign exchange loss incurred by Phoenix Group Holdings primarily related to its euro cash holdings prior to its capital injection into the Pearl businesses. Having reduced its euro cash holdings, the Phoenix Group Holdings' exposure to foreign exchange fluctuations has reduced.

(f) Non-recurring items

Non-recurring items reduced the embedded value by £78 million before tax and primarily include:

- £27 million of costs associated with the Phoenix Life site rationalisation and associated staff reductions and the Group's transformation programme with its outsourcers
- £44 million of acquisition related expenditure incurred by the Phoenix Group Holding subsidiaries
- A charge of £78 million after tax as a consequence of the restructuring of the Pearl businesses external debt which reduced the expected tax attributes available to the Group to relieve the tax on the emerging surpluses from the operating businesses
- A charge of £12 million after tax related to the court approved Guaranteed Annuity Option Compromise Scheme for Phoenix & London Assurance. This removed longevity risk from the business whilst providing policyholder benefit enhancements

- Offset by a profit of £102 million after tax as a result of reassessing the impairment of a loan made to the Phoenix & London Assurance long-term fund. The improved recoverability of the loan reflects the outcome of risk management activity within Phoenix & London Assurance and the improved financial position of the fund.

(g) Gain on debt refinancing

As part of their acquisition by Phoenix Group Holdings, the Pearl businesses successfully refinanced their external borrowings resulting in an overall reduction of £575 million in exchange for cash and an issue of warrants totalling £84 million.

(h) Finance costs attributable to owners

	2009
	£m
Debt finance costs(1)	176
Debt issue	202
Other finance costs	12
Finance costs attributable to owners	**390**

(1) Finance costs on the Impala and Pearl facility agreements (and associated swap interest) and the Royal London PIK notes.

Debt financing costs include interest of £142 million on the holding company debt for the eight-month period prior to the refinancing (as discussed above) and interest on the refinanced debt on amended terms thereafter of £34 million for the final four-month period.

As part of Phoenix Group Holdings' acquisition of the Pearl businesses, fees of £202 million were paid to the banks as consideration to facilitate the transaction. The consideration was in the form of equity issued to the lenders by Phoenix Group Holdings and therefore resulted in a corresponding increase in capital. Under IFRS these debt issue costs are taken into account in determining the cost of acquisition of the Pearl businesses.

(i) Capital and other movements

Other comprehensive income of £58 million includes £14 million of actuarial losses on defined benefit pension schemes, and £44 million exchange rate losses which will reduce going forward as Phoenix Group Holdings changed its functional currency from euros to sterling during the year.

Capital movements comprised additional shares issued of £275 million at the time of the acquisition of the Pearl businesses, £51 million of shares issued on conversion of the warrants, £5 million of share-based payments offset by £41 million of shares redeemed at the time of the acquisition of the Pearl businesses.

The £275 million of share capital issued includes £202 million in connection with the associated debt restructuring and an additional cash equity injection of £73 million at the time of the acquisition of the Pearl businesses by Phoenix Group Holdings.

2.6 Pro Forma Group MCEV analysis of earnings

For the year ended 31 December 2009

		Non-covered business			
	Covered business MCEV £m	Management services IFRS £m	Asset Management IFRS £m	Corporate(1) IFRS £m	Group MCEV £m
Pro forma Group MCEV at 1 January 2009	4,081	122	34	(3,193)	1,044
Operating MCEV earnings (post-taxation)	273	10	24	(38)	269
Non–operating MCEV earnings (post-taxation)	511	(25)	(4)	(200)	282
Total MCEV earnings	**784**	**(15)**	**20**	**(238)**	**551**
Foreign exchange	—	—	—	(44)	(44)
Other movements	—	—	—	(14)	(14)
Capital and dividend flows – internal	(134)	(51)	(15)	200	—
Capital and dividend flows – external	—	—	—	290	290
Closing value at 31 December 2009	**4,731**	**56**	**39**	**(2,999)**	**1,827**

1 Comprises the Group holding companies that do not form part of the Phoenix Life and Ignis Asset Management divisions.

2.7 Reconciliation of Group IFRS equity to MCEV net worth

For the year ended 31 December 2009

	2009 Group £m
Group net assets attributable to owners of the parent as reported under IFRS at 31 December 2009	**1,412**
Goodwill and other intangibles in accordance with IFRS (after tax)	(413)
Value of in-force business in accordance with IFRS (after tax)	(1,419)
Adjustments to IFRS reserving	(98)
Tax adjustments	(99)
Revalue listed debt to market value	235
Eliminate value of contingent loans assets[1]	(194)
Fair value adjustments[2]	(40)
Eliminate pension scheme surplus[3] (after tax)	(45)
Other adjustments	(9)
MCEV net worth attributable to owners of the parent at 31 December 2009	**(670)**

1 Removal of value attributed to contingent loans issued by holding companies to long-term funds as their expected repayments are captured within the MCEV VIF calculations.

2 Investments carried at amortised cost under IFRS are revalued at market value.

3 The pension scheme surplus removed is the economic surplus of the PGL scheme, as described in note 32 to the IFRS consolidated financial statements, after tax.

2.8 Notes to the pro forma MCEV financial statements

Note 1: Basis of preparation

(i) Overview

The supplementary information on pages 92 to 104 covering the year to 31 December 2009 has been prepared on a Market Consistent Embedded Value (“MCEV”) basis, except for the items described further below.

Whilst the IFRS consolidated financial statements consolidate the results of the Pearl businesses for the period from acquisition on 28 August 2009 to 31 December 2009, the pro forma MCEV results include a full year’s contribution for the acquired Pearl business. The pro forma MCEV results are therefore based on the results of the Group plus the Pearl business for the period prior to their acquisition by Phoenix Group Holdings.

The supplementary MCEV information reflects the financial position of the Group at 31 December 2009. The asset management and management service businesses are included in the Group MCEV at the value of IFRS net assets and do not include the future earnings from their existing business. This is because, in the opinion of the Directors, applying the CFO Forum MCEV principles and guidance to these businesses would not provide a fair reflection of the Group’s financial position, as explained in note 8.

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

- Risk-free rates have been defined as the annually compounded UK government nominal spot curve plus ten basis points rather than as a swap rate curve;
- No allowance for the cost of residual non-hedgeable risk (“CNHR”) has been made because, in the opinion of the Directors, the Group operates a robust outsourcer model in terms of operational risk, does not write new business, is focussed entirely on the back book, and has succeeded in closing out significant legacy risks. The theoretical value of CNHR is disclosed separately in note 1 (B); and
- As indicated above the value of the asset management and management service companies are calculated on an IFRS basis.

The Group MCEV allows for methodology changes from previously published embedded values. The methodology changes have been implemented to better align the Group’s MCEV methodology with the CFO Forum principles. Details of the methodology changes and a reconciliation to the Group MCEV at 31 December 2008, as published in the proxy statement of 3 July 2009, are provided in note 8.

(ii) Covered business

The MCEV calculations cover all long-term insurance business written by the Group, but exclude Ignis Asset Management, the management service companies and business carried on at the Corporate level.

Opal Re is included within covered business and is valued on a basis consistent with the annuity business within the life companies.

(iii) MCEV methodology

The embedded value of covered business is based on a market-consistent methodology. Under this methodology, assets and liabilities are valued in line with market prices and consistently with each other. Details of the key components of the MCEV are discussed below.

The components of MCEV are:

- Assets available for distribution to shareholders, or free surplus; plus
- Assets supporting the solvency requirements of the business, or required capital; plus
- The value of in-force covered business.

(A) Free surplus and required capital

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

For the Group’s life companies, net worth is defined as the market value of shareholder funds plus the shareholders’ interest in surplus assets held in long-term business funds less the market value of any outstanding debt of the life companies.

Loans from the life companies to holding companies have been consolidated out such that they do not appear as an asset in the life company nor as a liability in the holding company. This presentation has no impact on the overall MCEV but does affect the allocation of net assets between covered and non-covered business.

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

For the Group, required capital is defined as the greater of:

- The amount of capital required to meet the FSA capital adequacy requirements, consisting of the greater of Pillar 1 and Pillar 2 capital requirements where:
  - Under Pillar 1, the life companies are required to maintain excess capital in excess of policy liabilities calculated using a basis specified by the FSA;
  - Under Pillar 2, the life companies are required to carry out and submit their own assessment of capital requirements by assessing the major risks they are running and the capital they need to ensure that they remain able to meet their liabilities to policyholders in all but the most extreme circumstances;
- The capital required under the Group's capital management policy.

On this basis the required capital measure is 125% of the solvency capital at which the regulator is empowered to take action.

Net worth in excess of required capital is free surplus.

The European Solvency II Directive will introduce a new capital regime for insurers during 2012. These disclosures do not take account of the impact of the change in regime as this is still under development.

(B) Value of in-force business ("VIF")

The value of in-force covered business consists of the following components:

- Present value of future profits;
- Time value of financial options and guarantees; and
- Frictional costs of required capital.

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

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

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

(I) Present value of future profits ("PVFP")

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

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

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

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

The TVFOGs allow for the impact of management actions, consistent with those permitted by the Principles and Practices of Financial Management. The modelling of management actions vary for each of the funds but typically include management of bonus rates and policy enhancements, charges to asset share to cover increases to the cost of guarantees and alterations to investment strategy.

(III) Frictional cost of capital ("COC")

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

(IV) Cost of residual non-hedgeable risks ("CNHR")

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

No allowance for the cost of non-hedgeable risk has been made, as in the opinion of the Directors, the cost of residual non-hedgeable risk calculated in accordance with CFO Forum principles and guidance does not anticipate further risk management actions and therefore does not provide a fair reflection of the Group's ongoing risk.

However, the cost of residual non-hedgeable risk calculated in accordance with the CFO Forum principles and guidance, and therefore without anticipating further risk management actions, has been disclosed below.

For with profits business the theoretical cost of residual non-hedgeable risk would increase the TVFOGs by £93 million.

For other business the cost would be £141 million. This equates to an equivalent average cost of capital charge of 1.6%. The level of capital assumed in this calculation is determined based on a 99.5% confidence level over a one year time horizon, consistent with the ICA methodology. Allowance is made for diversification benefits between non-hedgeable risks, but not between hedgeable and non-hedgeable risks.

(C) Valuation of debt

Listed debt issued by the Group is valued at the market value quoted at the reporting date which is consistent with MCEV principles.

The National Provident Life Securitised Bonds are backed by surpluses that are expected to emerge on blocks of its unit linked and unitised with profits business. This securitisation has been valued on a cash flow basis, allowing for payments expected to be due based on the projected level of securitised surpluses emerging. The full VIF of the securitised unit linked and unitised with profits business is expected to be payable to bondholders; therefore, no additional value accrues to the embedded value.

Unlisted bank debt owed by the holding companies is included at face value.

(D) Taxation

Full allowance has been made for the value of tax that would become payable on the transfer of surplus assets out of non profit funds. This allowance reflects the projected pace of releases of surplus from non profit funds that is not required to support with profit funds.

Allowance has also been made for the tax relief arising from interest payments made on the debt of the holding companies. The value of the tax relief is determined by offsetting the tax payable on profits emerging from covered business against the tax relief afforded by interest payments on the debt. Interest payments are projected assuming that current levels of debt are reduced and then refinanced to maintain a long-term level of debt that the Directors consider to be supported by the projected embedded value of the Group's businesses.

(E) New business

The MCEV places a value on the profits expected to be earned on annuities arising from policies vesting with guaranteed annuity terms. These policies are excluded from the definition of new business on the basis that the annuity being provided is an obligation under an existing policy and the life companies are already reserving for the cost of these guarantees.

New business includes all other annuities written by the life insurance companies.

(F) Participating business

Allowance is made for future bonus rates on a basis consistent with the projection assumptions and established company practice.

The time value of options and guarantees used in the calculation of MCEV also allows for expected management action and policyholder response to the varying external economic conditions simulated by the economic scenario generators. Policyholder response has been modelled based on historical experience. Management actions have been set in accordance with each life company's Principles and Practices of Financial Management.

(G) Pension schemes

The MCEV allows for pension scheme deficits as calculated on an IFRS basis, but no benefit is taken for pension scheme surpluses.

Note 2: Components of the MCEV of covered business

	2009 MCEV £m	**2008 MCEV £m**
Net worth	2,234	1,816
PVFP	2,864	2,680
TVFOG	(97)	(206)
COC	(270)	(209)
	4,731	**4,081**

The net worth of covered business of £2,234 million at December 2009 consisted of £1,826 million of required capital and £408 million of free surplus.

Note 3: Analysis of covered business MCEV earnings (after tax)

	Net worth £m	**VIF £m**	**2009 Total Life MCEV £m**
Life pro forma MCEV at 1 January 2009	1,816	2,265	4,081
New business value	18	4	22
Expected existing business contribution (reference rate)	32	27	59
Expected existing business contribution (in excess of reference rate)	10	26	36
Transfer from VIF	181	(181)	—
Experience variances	51	11	62
Assumption changes	165	(92)	73
Other operating variances	(14)	35	21
Operating Life MCEV earnings	**443**	**(170)**	**273**
Economic variances	66	438	504
Other non-operating variance	12	(5)	7
Total Life MCEV earnings	**521**	**263**	**784**
Capital and dividend flows	(103)	(31)	(134)
Life MCEV at 31 December 2009	**2,234**	**2,497**	**4,731**

Note 4: New business

The value generated by new business written during the period is calculated as the present value of the projected stream of after tax distributable profits from that business. This contribution has been valued using economic and non-economic assumptions at the point of sale. The value of new business is shown after the effect of frictional costs of holding required capital on the same basis as for the in-force covered business.

	Premium £m	MCEV £m	2009 MCEV/ Premium %
New business	401	22	5%

Note 5: Maturity profile of business

This note sets out how the PVFP is expected to emerge into net worth over future years. Surpluses are projected on a certainty equivalent basis with allowance for liquidity premiums as appropriate and are discounted at risk-free rates.

	1-5 £m	6-10 £m	11-15 £m	16-20 £m	Years 20+ £m	2009 Total £m
Present value of future profits	975	767	508	305	309	2,864

Note 6: Economic assumptions

(i) Reference rates

(A) Risk-free rates

Risk-free rates are based on the annually compounded UK government bond nominal spot curve plus ten basis points, extrapolated as necessary to meet the term of the liabilities. Recognising that this is a departure from MCEV Principles, a sensitivity based on swap yields is disclosed.

The risk-free rates assumed for a sample of terms were as follows:

	Year ended 31 December 2009		Year ended 31 December 2008	
Term	**Gilt Yield +10 bps**	**Swap Yield**	**Gilt Yield +10 bps**	**Swap Yield**
1 year	0.97%	1.02%	1.22%	n/a
5 years	3.13%	3.49%	2.87%	n/a
10 years	4.35%	4.27%	3.58%	n/a
15 years	4.80%	4.55%	4.13%	n/a
20 years	4.86%	4.55%	4.34%	n/a

The swaps rates above are only applicable to sensitivity (12) as disclosed in note 7.

(B) Liquidity premiums

In October 2009, the CFO Forum published an amendment to MCEV principles to reflect the inclusion of a liquidity premium. The changes affirm that the reference rate may include a liquidity premium over and above the risk-free yield curve for liabilities which are not liquid, given that the matching assets are able to be held to maturity.

The liabilities to which a liquidity premium is applied include immediate annuities, pensions policies with benefits defined as an annuity or with in-the-money GAOs. The liquidity premium is determined by reference to the yield on the bond portfolios held after allowing for credit risk by deducting margins for best estimate defaults and unexpected default risk premiums. At 31 December 2009 the calculated liquidity premium represented an additional yield above risk-free rates of 30 basis points (31 December 2008: 70 basis points).

(ii) Inflation

For purposes of the MCEV calculation, the rate of increase in the UK Retail Price Index ("RPI") as at 31 December 2009 was taken from the implied inflation curve at a term appropriate to the liabilities. The rate of increase in UK National Average Earnings inflation is assumed to be RPI + 100 basis points as at 31 December 2009.

(iii) Stochastic economic assumptions

The time value of options and guarantees is calculated using an economic scenario generator. The model is calibrated to market conditions as at 31 December 2009. The scenario generator and calibration are consistent with that used for realistic balance sheet reporting.

A LIBOR Market Model is used to generate risk-free rates over a complete yield curve, calibrated to the UK nominal spot curve plus ten basis points, consistent with the deterministic projections. Interest rate volatility is calibrated to swaption implied volatilities, as per the sample below.

End 2009					Swap term (years)	
Option term (years)	5	10	15	20	25	30
5	17.0%	13.1%	14.3%	15.1%	15.9%	15.4%
10	15.7%	13.8%	14.8%	15.4%	15.6%	14.7%
20	15.9%	14.1%	14.6%	14.4%	14.0%	13.0%
30	15.7%	13.6%	13.5%	13.0%	12.3%	11.5%

End 2008					Swap term (years)	
Option term (years)	5	10	15	20	25	30
5	16.6%	15.4%	15.5%	15.9%	16.1%	—
10	12.5%	13.9%	14.5%	14.5%	14.1%	—
20	18.4%	18.6%	17.4%	15.9%	14.3%	—
30	17.6%	17.1%	15.5%	14.1%	12.8%	—

Real interest rates have been modelled using the two-factor Vasicek model, calibrated to index-linked gilts. Equity volatility is calibrated to replicate the prices on a range of FTSE equity options, and extrapolated beyond terms available in the market. The equity volatility model used allows volatility to vary with both term and the level of the equity index.

Term (years)		5	10	15	20	25	30
Equity implied volatility (ATM)	End 2009	25.3%	26.6%	27.3%	27.5%	27.6%	27.7%
	End 2008	34.4%	34.6%	33.4%	33.1%	32.8%	32.5%

Best estimate levels of volatility are assumed for directly held property. The model implied volatility for 2009 is 15%. The modelling of corporate bonds allows for credit transitions and defaults, calibrated to historic data, with an additional allowance for the credit risk premium, derived from current markets.

(iv) Operating earnings

MCEV operating earnings assume investment returns based on the one-year risk-free rate at the beginning of the reporting period, plus expected returns in excess of the risk-free rate (an asset risk premium). The table below sets outs the asset risk premiums used:

	2009
	%
Equities	2.5
Property	2.0
Gilts	0.0

The return assumed on corporate bond portfolios is the redemption yield for the portfolio less an allowance for credit risk.

(v) Expenses

Each life company's projected per policy expenses are based on existing management services agreements with the Group's service companies, adjusted to allow for additional costs incurred directly by the life companies, including, for example, regulatory fees and one-time expenses.

The life companies' projected investment expenses are based on the fees agreed with Ignis Asset Management (or external fund managers, where appropriate), allowing for current and projected future asset mixes.

(vi) Valuation of debt and non-controlling interests

The Group's consolidated balance sheet as at 31 December 2009 includes Perpetual Reset Capital Securities with a face value of £500 million and subordinated debt with a face value of £200 million in relation to Phoenix Life Limited (ex-Scottish Mutual Assurance). These listed securities have been included within the MCEV at their market value quoted at the reporting date.

The table below summarises the value of these debt obligations as at 31 December 2009.

		2009		2008
Listed debt and non-controlling interests	**Face value (including accrued interest) £m**	**Market value £m**	**Face value (including accrued interest) £m**	**Market value £m**
Perpetual Reset Capital Securities	540	264	517	95
Phoenix Life Limited (ex-Scottish Mutual Assurance) subordinated debt	211	156	211	120

Unlisted debt has been included at face value.

Unlisted debt	**2009 Face value £m**	**2008 Face value £m**
Pearl and Impala facilities	2,760	3,085
Royal London PIK note	102	332

Note 7: Sensitivity to assumptions

The table below summarises the key sensitivities of the MCEV of covered business at 31 December 2009:

		2009 Total Life MCEV £m
(1)	Base	4,731
(2)	1% decrease in risk-free rates	135
(3)	1% increase in risk-free rates	(167)
(4)	10% decrease in equity/property market values	(156)
(5)	100 bps increase in credit spreads[1]	(365)
(6)	25% increase in equity/property implied volatilities	(19)
(7)	25% increase in swaption implied volatilities	(57)
(8)	10% decrease in lapse rates and paid-up rates	(19)
(9)	5% decrease in annuitant mortality	(183)
(10)	5% decrease in non-annuitant mortality	20
(11)	Required capital equal to the minimum regulatory capital	81
(12)	Swap curve as reference rate, retaining appropriate liquidity premiums	(160)

1 25 bps is assumed to relate to default risk.

No expense sensitivity has been shown as maintenance costs incurred by the covered business are largely fixed under the terms of agreements with the management services companies.

Note 8: Reconciliation of pro forma Group MCEV to previously published EV

The MCEV allows for methodology changes from previously published embedded values. The methodology changes have been implemented to better align the Group's methodology with the CFO Forum principles. Details of these adjustments and methodology changes and a reconciliation to the EV at 31 December 2008, as published in the proxy statement of 3 July 2009, are provided below.

	Note	Group £m
Unaudited historical pro forma net EV as disclosed in the Proxy Statement as at 31 December 2008		**1,265**
Phoenix Group Holdings IFRS net assets at 31 December 2008		573
MCEV of Opal Re at 31 December 2008	(a)	12
Pro forma Group MCEV before methodology changes		**1,850**
Methodology changes:		
PVFP of non-covered business	(b)	(630)
Reduced liquidity premiums	(c)	(251)
Vesting annuities	(d)	65
Other changes		10
Pro forma Group MCEV at 31 December 2008		**1,044**

(a) As Opal Re is now part of the Group it is included within covered business from 31 December 2008 and is valued on a basis consistent with the annuity business within the life companies.

(b) Asset management and management service companies have been excluded from the definition of covered business. Under CFO Forum principles and guidance productivity gains should not be recognised until achieved. This treatment is inconsistent with the cost profile of a closed fund where continual cost reductions are expected to maintain unit costs as the business runs off. In the opinion of the Directors, if the MCEV principles and guidance were to be applied to the asset management and the management service companies, it would not provide a fair reflection of the Group's financial position. These companies are therefore reported alongside the Group's other non-life Group companies at their IFRS net asset value.

(c) The allowance for default risk has been increased to include an explicit margin for unexpected default risk premium. This reduces the value of liquidity premiums within the MCEV. This change is to align the Group's methodology with the risk-neutral principles that form the basis of the CFO Forum's MCEV methodology.

(d) The MCEV places a value on the profits expected to be earned on annuities arising from policies vesting with guaranteed annuity terms. These policies are excluded from the definition of new business on the basis that the annuity being provided is an obligation under an existing policy and the life companies are already reserving for the cost of these guarantees.

PART VIII: OPERATING AND FINANCIAL REVIEW

A prospective investor should read the following review in conjunction with the rest of this Prospectus, including the financial information contained in the Annex and should not rely solely on the information contained in this Part VIII. This discussion contains forward-looking statements that involve risks and uncertainties that could cause the actual results of the Group to differ from those expressed or implied by such forward-looking statements. These risks and uncertainties are discussed in Part II:"Risk Factors" and Part III: "Administration, Advisers and Presentation of Information".

The discussion contained herein relates to, and all financial information has been extracted without material adjustment from, the historical financial information set out in the Annex, which has been prepared in accordance with International Financial Reporting Standards as adopted by the EU except as discussed below. The financial statements for OPB, the Resolution Group and the Group have been prepared on a historic cost basis except for investment property, owner-occupied property, and those financial assets and financial liabilities that have been measured at fair value. See Note 1 to the consolidated financial statements for each of the Resolution Group and the Group and the combined financial statements of OPB and Part III: "Administration, Advisers and Presentation of Information".

This section discusses the historical financial information of (i) OPB for the period from 1 January 2007 to 31 December 2009, (ii) the Resolution Group for the period from 1 January 2007 to 31 December 2008 and (iii) the Group from 2 January 2008 to 31 December 2009.

1 OVERVIEW

The Group is a closed life assurance fund consolidator that specialises in the management and acquisition of closed life and pension funds and operates primarily in the UK. Opal Re, a direct subsidiary of the Company, is a Bermudian reassurance company that reinsures risk only for the Pearl Life Companies. Measured by total assets, the Group is the largest UK consolidator of closed life assurance funds. The Group does not write any new policies (other than increments to existing policies and annuities for current policyholders when their policies mature) and is therefore focused on the efficient "run off" of the Group's policies, seeking to maximise economies of scale and to generate capital efficiencies through internal fund mergers and other operational improvements. The Group has two core business segments: life assurance (including its management services operations) – referred to as Phoenix Life; and asset management – referred to as Ignis Asset Management.

The Group has eight operating life companies which hold policyholder assets, the "Phoenix Life Companies":

- Phoenix Life Limited;
- Phoenix Pensions;
- Pearl Assurance;
- London Life;
- Phoenix & London Assurance;
- NPI;
- National Provident Life; and
- Scottish Mutual International.

These companies have a diversified mix of long-term business, with policyholder liabilities split approximately 53 per cent. with profit, 28 per cent. non profit and 20 per cent. unit linked as at 31 December 2009.

The Group's two principal management service companies, PGS and PGMS, aim to provide all administrative services required by the Group's life companies (or manage such provision through outsourcing arrangements), including policy administration, information technology, finance and facility management services. It is anticipated that PGS and PGMS will be further integrated in due course.

Ignis Asset Management is the Group's asset management business providing asset management and asset and liability management services to the Group's life companies as well as a third party client base of retail and institutional investors. Ignis Asset Management had £66.9 billion of assets under management as at 31 December 2009, including £62.8 billion of the Group's and the Phoenix Life Companies' assets (including £2.7 billion of Pearl Group Staff Pension Scheme and PGL Pension Scheme assets) and £4.1 billion of third party assets. Ignis Asset Management includes the entities of

Ignis Asset Management Limited, Ignis Investment Services Limited, Ignis Fund Managers Limited and Ignis Investment Management Limited (previously Axial Investment Management Limited, which was, until the fourth quarter of 2009, a separate business). For more information, see Part IV: "Information on the Group—Section B: The Group—Structure of the Group".

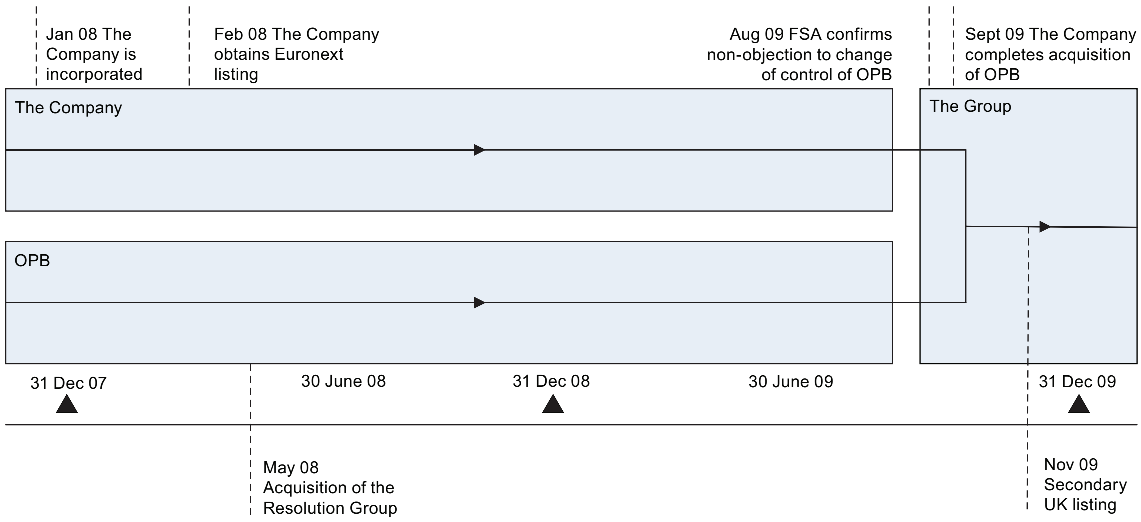
As at 31 December 2009, the Group had MCEV of £1,827 million, total assets under management of approximately £66.9 billion and approximately 6.5 million policyholders.

2 BASIS OF PRESENTATION

2.1 Structure and history of the Group

The Company is the holding company of the Group and was incorporated as a special purpose acquisition company in 2008. The Company acquired OPB in September 2009. At the time of its acquisition by the Company, OPB comprised: (i) LCA and LCB and their subsidiaries, which include the Pearl Life Companies and their affiliates, (ii) Opal Re, which was established in 2007 and (iii) the Resolution Group, which OPB acquired in May 2008.

The following timeline details the key developments in the history of the Group since 2008.



(a) OPB

Prior to its acquisition of the Resolution Group, OPB comprised four life assurance companies: Pearl Assurance, London Life, National Provident Life and NPI, which are collectively referred to herein as the "Pearl Life Companies", and their respective affiliates. The Pearl Life Companies were acquired by the Australian financial group AMP Limited over a ten-year period between 1989 and 1999, and by 2003 each of them had ceased writing new business, although each continued to write increments to existing policies and annuities for current policyholders when their policies mature.

In December 2003, AMP Limited de-merged its UK operations, which included the Pearl Life Companies, and the de-merged operations came to be held by HHG plc. In April 2005, HHG plc sold the Pearl Life Companies and their affiliates for £1.1 billion to, amongst others, TDR Capital and certain principals of Sun Capital. In connection with this acquisition, a holding structure (comprised of two columns of two special-purpose vehicles ("SPVs") – one column for each of Sun Capital and TDR Capital) was established above the company that held the Pearl Life Companies. The lowest SPVs in each column (being LCA and LCB) and their subsidiaries, which included the Pearl Life Companies, together comprised OPB at that time.

In 2007, Sun Capital and TDR Capital established Opal Re, a Bermudian reinsurance company.

Although the constituents of OPB (the Pearl Life Companies, LCA, LCB and Opal Re) did not form a group for financial reporting purposes, they were operated as a single business.

In May 2008, OPB acquired the Resolution Group, an acquisition that is described in greater detail below.

(b) The Resolution Group

The Resolution Group was formed as a result of the merger of Britannic Group plc ("Britannic") and Resolution Life Group Limited, which was completed on 6 September 2005. Both entities focussed on the acquisition and management of closed life funds. Following the merger, the merged entity, Resolution, became the largest consolidator of closed life funds in the UK at the time and became a constituent of the FTSE 100 Index in 2006.

(c) Acquisition of the Resolution Group

On 1 May 2008, Impala, a holding company incorporated within OPB, acquired the Resolution Group for a purchase price of £5.0 billion. As part of this acquisition, a separate holding structure (composed of six SPVs arranged in two three-tiered columns – one column for each of Sun Capital and TDR Capital) was established within OPB above Impala. In connection with this acquisition, OPB agreed to transfer certain assets held by the Resolution Group (the ''On-Sold Resolution Assets'') to Royal London for a total consideration of £1.3 billion (subject to certain post-closing adjustments).

For the avoidance of doubt, the Company and the Group are not affiliated with Resolution Limited, a company that was founded after the purchase of the Resolution Group by OPB for the purpose of acquiring companies in the financial sector and that is listed on the London Stock Exchange.

(d) Acquisition of OPB by the Company

The Company (at that time named Liberty International Acquisition Company) was incorporated on 2 January 2008 as a special purpose acquisition company. On 2 September 2009, the Company acquired the entire issued share capital of (i) LCA and LCB, which were established at the time of the acquisition of the Pearl Life Companies and their respective affiliates by, amongst others, TDR Capital and certain principals of Sun Capital, (ii) TC1 and TC2, which were established at the time of the acquisition of the Resolution Group by OPB and (iii) Opal Re (together, and as defined above, the ''Acquired OPB Companies''). These five companies, together with their subsidiaries, comprised OPB.

2.2 Components of the selected historical financial information

(a) Introduction

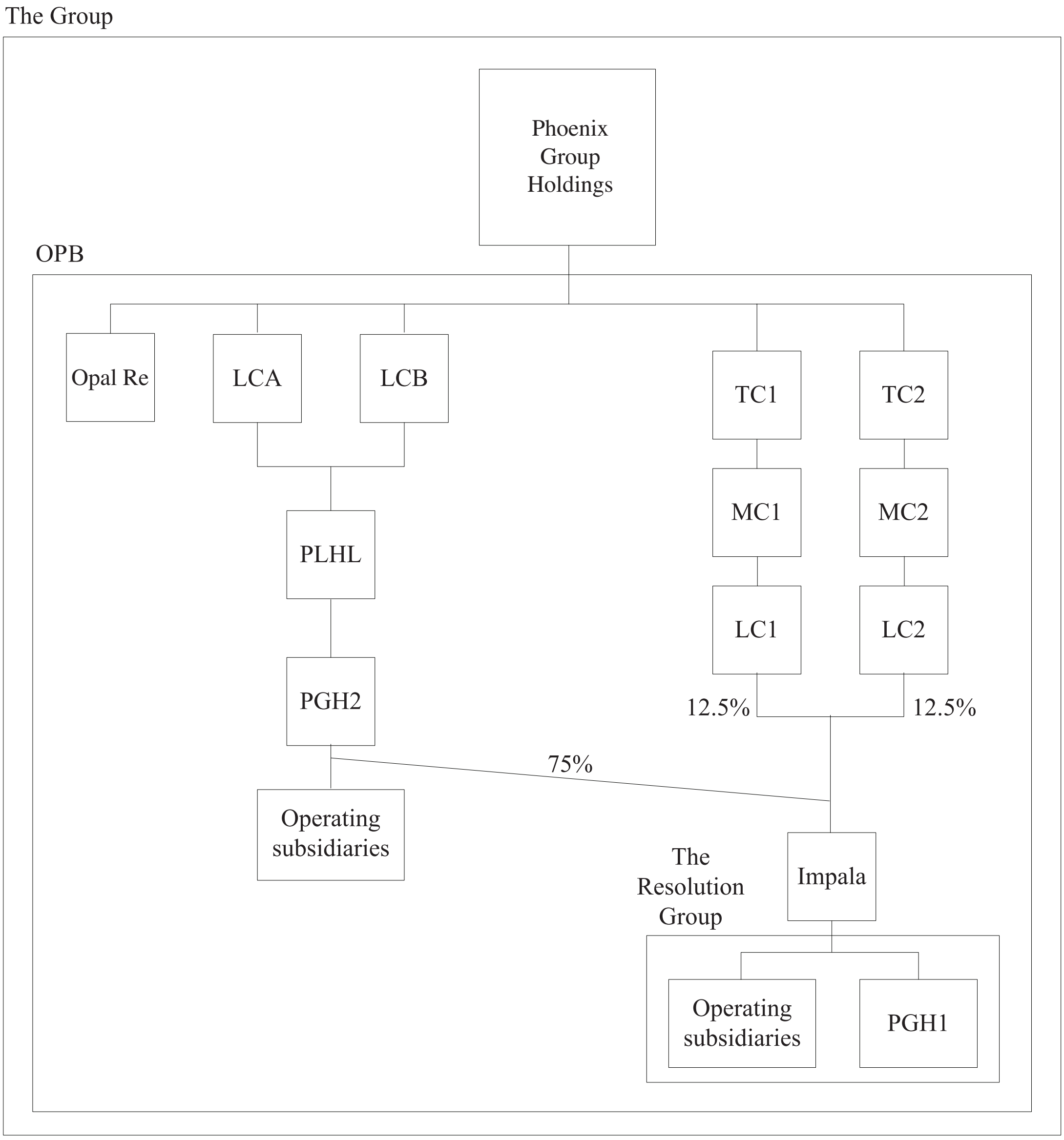
The financial information relating to the Group included in this Prospectus comprises three sets of separate financial statements for the following companies or groups of companies:

1 OPB;

2 the Resolution Group; and

3 the Group.

The summary group structure chart below shows the companies relevant to each of the three components of the track record. The overlaps between the three sets of financial information are described in "—Overlaps between the financial information" of this Part VIII below.



* Shareholdings are 100 per cent., unless otherwise stated.

(b) Financial information on OPB

Prior to the acquisition by the Company of the Acquired OPB Companies, OPB did not operate under a single holding company and did not form a single group for financial reporting purposes, even though the Acquired OPB Companies were held by common shareholders. Therefore, consolidated financial information has never been prepared for OPB. In the absence of such consolidated financial information, the Group has prepared combined financial information covering the holding companies and operating subsidiaries described above, which comprised OPB. This combined financial information has been prepared in accordance with IFRS as adopted for use in the EU ("IFRS") (except as described below) for the years ended 31 December 2009, 2008 and 2007 (the "Aggregated OPB Financial Information").

(i) Methodology

IFRS does not provide for the preparation of combined information, and, accordingly, in preparing the Aggregated OPB Financial Information, certain accounting conventions commonly used for the preparation of historic information for inclusion in investment circulars, as described in the Annexure to SIR 2000 (Investment Reporting Standard applicable to public reporting engagements on historical information) issued by the UK Auditing Practices Board, have been applied. The application of these conventions results in the following departures from IFRS as set out below:

- As explained above, the financial information is prepared on a combined basis and therefore does not comply with the requirements of IAS 27 *Consolidated and Separate Financial Statements*.
- The Aggregated OPB Financial Information does not constitute a set of general purpose financial statements under paragraph 7 of IAS 1 *Presentation of Financial Statements*, and, consequently, an explicit and unreserved statement of compliance with IFRS as contemplated by paragraph 16 of IAS1 has not been made.

In all other respects IFRS has been applied in the preparation of the Aggregated OPB Financial Information.

(ii) Acquisition of the Resolution Group

In accordance with IFRS, the results of the Resolution Group are consolidated in the Aggregated OPB Financial Information for the period from its acquisition on 1 May 2008. To assist in comparability, the Aggregated OPB Financial Information includes details of the Resolution Group acquisition together with information on the financial results of the Resolution Group for the period from 1 January 2008 to the date of its acquisition by OPB.

As noted above, in connection with the acquisition of the Resolution Group, OPB agreed to transfer the On-Sold Resolution Assets to Royal London for a total consideration of £1.3 billion (subject to certain post-closing adjustments). These transfers were effective from 1 May 2008 in the case of the companies transferred (being PLAL and the SPILA group of companies) and from 29 December 2008 in the case of the two books of business transferred. For financial reporting purposes, OPB was never considered to have acquired these companies or assets, and therefore they are not included in the Aggregated OPB Financial Information.

(c) Financial information on the Resolution Group

Consolidated financial information for the Resolution Group, prepared in accordance with IFRS, for the years ended 31 December 2008 and 2007 (the "Resolution Financial Information") is included in this Prospectus.

On 31 December 2008, the subsidiaries of PGH1 (previously Resolution) were transferred intra-group to Impala as part of an internal restructuring. In accordance with IFRS, as a result of this restructuring, the Resolution Group's results of operations for each of the two years ended 31 December 2008 are classified as discontinued. The consolidated balance sheet of PGH1 as at 31 December 2008 reflects the impact of this restructuring and therefore only comprises the assets, liabilities and equity of PGH1.

The Resolution Financial Information includes the On-Sold Resolution Assets up until their actual disposal, on 1 May 2008 or 29 December 2008, as applicable. To assist in comparability, the Resolution Financial Information includes disclosures on the results of the On-Sold Resolution Assets up until their respective date of disposal (including the income statement for 2007 and for the period of 2008 until disposal).

(d) Financial information on the Group

Consolidated financial information for the Group for the period from its incorporation on 2 January 2008 to 31 December 2008 and for the year ended 31 December 2009 (the "Phoenix Financial Information") is included in this Prospectus. The Phoenix Financial Information has been prepared in accordance with IFRS and consolidates the results of OPB for the period from 28 August 2009 to 31 December 2009. For the avoidance of doubt, although the acquisition of OPB legally closed on 2 September 2009, the date of the acquisition for accounting purposes is 28 August 2009.

2.3 Overlaps between the financial information

The three sets of financial information include the following overlaps:

For the period after the acquisition of OPB on 28 August 2009 (the date of the Acquisition for accounting purposes), by the Company, both the Aggregated OPB Financial Information and the Phoenix Financial Information include OPB.

For the period after the acquisition of the Resolution Group on 1 May 2008 to 31 December 2008, both the Aggregated OPB Financial Information and the Resolution Financial Information include the Resolution Group, although they treat the On-Sold Resolution Assets differently.

3 KEY FACTORS AFFECTING RESULTS OF OPERATIONS AND COMPARABILITY

The following paragraphs describe the key factors which have affected the results of operations of the Group, OPB and the Resolution Group during the period from 1 January 2007 to 31 December 2009 and which the Directors believe are reasonably likely to have a material effect on the Group's results and prospects in the current financial year.

When the following descriptions of key factors speak of the effects on the Group, such descriptions are relevant to an understanding of the results of operations of each of OPB, the Resolution Group and the Group.

3.1 Impact of recent economic downturn

OPB and the Resolution Group, which has been consolidated with OPB since 1 May 2008, derive a significant portion of their income from (i) their share of the appreciation of investments held in the funds associated with their with profit and non profit policies and investments held outside those funds for their own accounts and (ii) management fees charged in connection with managing not only the investments of such funds but also the investments of third parties. The investments whose appreciation (or depreciation) is recognised in OPB's and the Resolution Group's respective income statements include derivatives, debt securities, equity securities and holdings in authorised collective investment schemes. In addition, OPB's and the Resolution Group's investment properties are carried at fair value, and fluctuations in such properties' respective fair values are also recognised in the income statements of OPB and the Resolution Group. The above mentioned management fees are typically charged on the fair value of policyholder and third party funds managed by OPB and the Resolution Group. Accordingly, OPB's and the Resolution Group's results of operations are dependent upon the value of these investments, which are in turn dependent upon the prevailing global economic climate and its impact on capital markets.

Beginning in August 2007, the financial markets in the UK and elsewhere experienced extreme volatility and disruption, due largely to the stresses affecting the global financial system, which accelerated significantly in the second half of 2008 and into the first quarter of 2009, with the volatility subsiding somewhat and market conditions improving from the second quarter of 2009. The UK, most other major European countries, the US and Japan entered a severe recession during this period, and, although the UK is no longer considered to be in recession following marginal growth in the fourth quarter of 2009, the effects of the recession may persist, despite past and any future governmental intervention in the world's major economies. These circumstances exerted significant downward pressure on prices of equity and fixed-income securities, property assets and virtually all other asset classes. These decreases have only partially been offset by increases in the value of corporate bonds following the narrowing of credit spreads in 2009 and the improvement in global equity markets in the second half of 2009.

These economic conditions negatively affected the results of operations of OPB's and the Resolution Group's insurance and asset management subsidiaries during 2008 and, in the case of OPB (including the Resolution Group), in the first half of 2009. Decreases in the fair value of the above mentioned investments caused such subsidiaries to recognise losses in respect of those investments (not all of which were borne by shareholders) and also resulted in decreased management fees. In addition, in the first half of 2009, OPB proportionately increased the reserves it held in respect of its credit default margin on its corporate bond portfolio. Recognition of such a margin, which is akin to a bad debt provision within insurance contract liabilities, negatively affected OPB's results and increased the insurance contract liabilities recorded on its balance sheet, although this impact was largely offset by credit spreads widening in the second half of the year. For more information on the impact of the recent economic downturn on OPB's and the Resolution Group's financial results, see "—Results of

Operations for OPB—Net investment income'' and ''—Results of Operations for the Resolution Group—Net investment income'' of this Part VIII.

Until its acquisition of OPB in September 2009, the impact of the above on the Company was primarily limited to the low interest rate environment that accompanied the economic downturn.

3.2 Acquisitions, disposals and restructurings

Since January 2007, the comparability of the Group's results of operations have been affected by several significant transactions.

The above mentioned acquisition of the Resolution Group by OPB in May 2008 and the subsequent consolidation of the Resolution Group's financial results with its own significantly affects the comparability of OPB's 2007 and 2008 financial results. The full year consolidation of the Resolution Group in 2009 affects comparability with the preceding year, in which the Resolution Group's financial results were only consolidated for eight months. Similarly, the acquisition of OPB by the Company in September 2009 affects the comparability of the Company's 2008 and 2009 financial results.

The transfer of the On-Sold Resolution Assets to Royal London is treated differently in the Resolution Financial Information and the Aggregated OPB Financial Information. The Resolution Financial Information for 2008 excludes the financial results attributable to the on-sold companies (being PLAL and the SPILA group of companies) from 1 May 2008 and the financial results attributable to the transferred books of business from 29 December 2008. The Aggregated OPB Financial Information consolidates the Resolution Group's 2008 financial results from 1 May 2008 but excludes the financial results attributable to the On-Sold Resolution Assets entirely.

As part of the arrangements for the acquisition of the Resolution Group, a true-up mechanism was agreed with Royal London, in relation to the On-Sold Resolution Assets. The true-up mechanism was required because at the time the initial purchase price was agreed with Royal London, the value of the assets had been based only on information that had been made available by the Resolution Group prior to the acquisition. The true-up mechanism required OPB and Royal London to subsequently assess the value of the On-Sold Resolution Assets to determine the amount of any balancing payments due. As a result of an assessment of these assets completed in June 2009, OPB agreed that it owed Royal London a total of £271 million plus interest, split between tax and non-tax related matters. Under the agreed terms of settlement for this debt, the amounts owed by OPB to Royal London under the true-ups were largely set-off against the amounts owed by Royal London to Impala and its subsidiaries. Interest accrued on the relevant balances until set-off. The final net balancing amount of £13 million was settled in December 2009.

3.3 Cost reduction initiatives

Through a number of initiatives the members of the Group have realised and/or expect to realise annualised pre-tax cost savings and to reduce total fixed costs as the Group's closed life funds run off.

(a) Capita

On 30 May 2007, the Resolution Group announced that it had agreed to a strategic partnership with Capita to outsource its ''in-house'' customer service and IT functions to Capita based on a jointly designed servicing model, which was reflected in a master services agreement (the ''MSA''). Under the terms of the MSA (which has been amended to reflect the transfer to Royal London of the On-Sold Resolution Assets), Capita delivers IT services to the Resolution Group life companies and core aspects of customer servicing and policy administration to the Resolution Group policyholders. In connection with this outsourcing arrangement, approximately 2,000 employees of the Resolution Group were transferred to Capita on 1 August 2007, and the Resolution Group agreed to invest £140 million over four years, the last instalment of which is due to be made in 2011, to consolidate its separate customer service processes and information technology. Expenses of £32 million and £34 million associated with this investment programme were recognised in the Aggregated OPB Financial Information for the years ended 31 December 2009 and 2008, respectively. In the long-term, the Group expects to reduce its operating expenses as a result of such outsourcing arrangement.

(b) Office closures

The Group expects to realise significant cost savings from the planned closure of its Peterborough and Glasgow life company offices (and the consolidation of these operations into the Wythall site by the first quarter of 2011). The Group has substantially vacated its Glasgow life company site and expects to have done so for its Peterborough site in the second quarter of 2011. Expenses of £19 million and £23 million associated with these office closures were recognised in the Aggregated OPB Financial Information for the years ended 31 December 2009 and 2008, respectively.

3.4 Mortality, longevity and persistency

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

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

OPB's insurance liabilities decreased by £73 million in 2009 as a result of changes in longevity assumptions and increased by £94 million in 2009 as a result of changes in persistency assumptions (2008: increased by £15 million and £12 million, respectively; 2007: increased by £34 million and £29 million, respectively).

4 KEY LINE ITEMS

The following descriptions of key line items are relevant to the discussion of the results of operations for each of OPB, the Resolution Group and the Company.

4.1 Gross premiums written

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

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

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

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

4.2 Premiums ceded to reinsurers

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

4.3 Fees/fees and commissions

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

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

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

4.4 Net investment income

Net investment income comprises interest, dividends, rents receivable, net expected return on pension assets, fair value gains and losses on financial assets and investment property and impairment losses on loans and deposits.

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

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

Rental income from investment property is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

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

4.5 Policyholder claims

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

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

4.6 Reinsurance recoveries

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

4.7 Change in insurance contract liabilities

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

4.8 Transfer from unallocated surplus

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

4.9 Change in investment contract liabilities

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

4.10 Amortisation of acquired in-force business

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

4.11 Impairment of acquired in-force business

An impairment review of acquired in-force business is performed whenever there is an indication of impairment. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the consolidated income statement. Acquired in-force business is also considered in the liability adequacy test for each reporting period.

4.12 Total administrative expenses

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

4.13 Net (income) / expense attributable to unit holders

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

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

4.14 Other operating expenses

In the Aggregated OPB Financial Information, other operating expenses comprise "Acquisition costs", "Change in present value of future profits" and "Amortisation of acquired in-force business". In the Resolution Financial Information, other operating expenses comprise "Break fee paid to Friends Provident plc", "Other corporate transaction costs" and "Deferred consideration paid to the with profit funds on the transfer of Alba Life to the equity holders' funds".

4.15 Finance costs

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

5 RESULTS OF OPERATIONS FOR OPB

The table below sets forth OPB's combined results of operations for the years ended 31 December 2009, 2008 and 2007.

	Year ended 31 December		
	2009	**2008[(1)]**	**2007**
	£ million	*£ million*	*£ million*
Gross premiums written	1,666	1,330	491
Premiums ceded to reinsurers	(71)	(76)	(4)
Net premiums written	**1,595**	**1,254**	**487**
Fees	200	180	57
Net investment income	4,555	(2,668)	1,120
Total revenue (net of reinsurance payable)	**6,350**	**(1,234)**	**1,664**
Other operating income	132	74	8
Net income	**6,482**	**(1,160)**	**1,672**
Net policyholder claims and benefits incurred	(3,679)	(136)	(1,159)
Change in investment contract liabilities	(1,238)	1,747	(285)
Impairment of acquired in-force business	—	(408)	—
Total administrative expenses[(2)]	(738)	(722)	(137)
Net (income) / expense attributable to unit holders	(29)	140	—
Other operating expenses[(3)]	(123)	(150)	(13)
Profit / (loss) before finance costs and tax	**675**	**(689)**	**78**
Finance costs	(499)	(683)	(244)
Profit / (loss) for the year before tax	**176**	**(1,372)**	**(166)**
Owners' tax	48	333	(42)
Policyholder tax	—	106	71
Tax credit	48	439	29
Profit / (loss) for the year	**224**	**(933)**	**(137)**
Attributable to:			
Owners of the parent	177	(920)	(137)
Non-controlling interests	47	(13)	—
	224	**(933)**	**(137)**

(1) OPB's combined results of operations for the year ended 31 December 2008 consolidate the Resolution Group's results of operations (excluding the On-Sold Resolution Assets) from 1 May 2008.

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

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

5.1 Net premiums written

OPB's net premiums written for the year ended 31 December 2009 increased by £341 million, or 27 per cent., to £1,595 million, from £1,254 million for the year ended 31 December 2008. Net premiums written attributable to OPB (excluding the Resolution Group) decreased by approximately 2 per cent. in 2009 in line with the closed life fund business model. Net premiums written attributable to the Resolution Group increased by approximately 47 per cent., reflecting the consolidation of the Resolution Group's financial results in 2009 for a full year, as opposed to eight months in 2008.

OPB's net premiums written for the year ended 31 December 2008 increased by £767 million to £1,254 million, from £487 million for the year ended 31 December 2007. Net premiums written attributable to the acquired Resolution Group represented approximately 60 per cent. of total net premiums written in 2008. Accordingly, the increase in net premiums written between 2007 and 2008 was primarily due to the acquisition of the Resolution Group in May 2008, which accounted for approximately 98 per cent. of the £767 million increase. Excluding the effects of this acquisition, OPB's net premiums written increased by approximately 3 per cent., consistent with the closed life fund business model.

5.2 Fees

The table below sets forth a breakdown of OPB's fees for the years ended 31 December 2009, 2008 and 2007.

	Year ended 31 December		
	2009	**2008**	**2007**
	£ million	*£ million*	*£ million*
Fund management based fees	77	63	—
Investment contract income	121	109	57
Other	2	8	—
Fees	**200**	**180**	**57**

OPB's fees for the year ended 31 December 2009 increased by £20 million, or 11 per cent., to £200 million, from £180 million for the year ended 31 December 2008. This increase was primarily due to an increase in fees attributable to OPB (excluding the Resolution Group), which increased by approximately 53 per cent. as a result of improved market conditions in the second half of 2009. Despite the consolidation of the Resolution Group's financial results in 2009 for a full year, as opposed to eight months in 2008, the fees attributable to the Resolution Group only increased by approximately £2 million, or 1 per cent. On a like-for-like IFRS basis, the fees attributable to the Resolution Group decreased, reflecting a change in the mix of its assets under management as a result of net outflows from higher margin hedge fund products and net inflows to lower margin institutional business.

OPB's fees for the year ended 31 December 2008 increased by £123 million to £180 million, from £57 million for the year ended 31 December 2007. Fees attributable to the acquired Resolution Group represented approximately 81 per cent. of total fees in 2008. Accordingly, the increase in fees between 2007 and 2008 was primarily due to the acquisition of the Resolution Group. Excluding the effects of this acquisition, OPB's fees decreased by approximately £23 million, or 40 per cent., primarily due to declining asset values as a result of deteriorating market conditions in the second half of 2008.

5.3 Net investment income

The table below sets forth a breakdown of OPB's net investment income for the years ended 31 December 2009, 2008 and 2007.

	Year ended 31 December		
	2009	**2008**	**2007**
	£ million	*£ million*	*£ million*
Investment income			
Interest income on loans and receivables	74	47	—
Interest income on financial assets designated at fair value through profit or loss on initial recognition	2,341	2,411	1,165
Dividend income	574	460	92
Rental income	119	89	7
Net expected return on pension asset	(26)	7	15
	3,082	**3,014**	**1,279**
Fair value gains / (losses)			
Impairment losses on loans and receivables	—	(95)	—
Reversal of impairment losses on loans and receivables	95	—	—
Financial assets at fair value through profit or loss			
Held for trading – derivatives	*(632)*	*108*	*34*
Designated upon initial recognition	*2,024*	*(5,226)*	*(246)*
Investment property	(14)	(469)	53
	1,473	(5,682)	(159)
Net investment income	**4,555**	**(2,668)**	**1,120**

OPB's net investment income for the year ended 31 December 2009 changed by £7,223 million, from a loss of £2,668 million for the year ended 31 December 2008 to a gain of £4,555 million for the year ended 31 December 2009. Approximately 61 per cent. of the £7,223 million change was attributable to the change in the Resolution Group's net investment income, with the remainder attributable to the change in the net investment income of OPB (excluding the Resolution Group). This £7,223 million change was primarily due to the recognition of fair value gains of £1,473 million on investments held by both OPB (excluding the Resolution Group) and the Resolution Group in 2009, as compared to the recognition of fair value losses of £5,682 million in 2008. Such gains were primarily the result of a narrowing of credit spreads and a rally in the equity markets, as market conditions improved in the second half of 2009.

OPB's net investment income for the year ended 31 December 2008 changed by £3,788 million, from a gain of £1,120 million for the year ended 31 December 2007 to a loss of £2,668 million for the year ended 31 December 2008. The loss attributable to the Resolution Group represented approximately 52 per cent. of the total loss of £2,668 million in 2008 and approximately 37 per cent. of the total change of £3,788 million in OPB's net investment income between 2007 and 2008. The change was primarily due to a significant increase in fair value losses, the effects of which were partially offset by an increase in investment income. The increase in fair value losses was primarily due to the recognition of significant fair value losses on investments held by OPB (excluding the Resolution Group) as well as the Resolution Group, in respect of certain financial assets (equities, fixed and variable rate income securities and collective investment schemes) and investment properties marked to fair value, as a result of widening credit spreads and declining equity and property markets in the second half of 2008. The increase in investment income occurred primarily as a result of the acquisition of the Resolution Group. Excluding this acquisition, OPB's investment income declined marginally, reflecting a decrease in interest rates as a result of deteriorating market conditions in the second half of 2008.

5.4 Total revenue (net of reinsurance payable)

As a result of the foregoing factors, OPB's total revenue (net of reinsurance payable) changed by £7,584 million between 2008 and 2009, from a total loss of £1,234 million for the year ended 31 December 2008 to total revenue of 6,350 million for the year ended 31 December 2009. OPB's total revenue (net of reinsurance payable) changed by £2,898 million between 2007 and 2008, from total revenue of £1,664 million for the year ended 31 December 2007 to a total loss of £1,234 million for the year ended 31 December 2008. Total revenue (net of reinsurance payable) attributable to the Resolution Group represented approximately 68 per cent. of OPB's total revenue (net of reinsurance payable) in 2009, and the total loss (net of reinsurance payable) attributable to the Resolution Group represented approximately 40 per cent. of OPB's total loss (net of reinsurance payable) in 2008.

5.5 Other operating income

OPB's other operating income for the year ended 31 December 2009 increased by £58 million, or 78 per cent., to £132 million, from £74 million for the year ended 31 December 2008. This increase was primarily due to recoveries under an insurance claim and a sale and purchase agreement indemnity of £11 million and £35 million, respectively.

OPB's other operating income for the year ended 31 December 2008 increased by £66 million to £74 million, from £8 million for the year ended 31 December 2007. Other operating income attributable to the Resolution Group represented approximately 91 per cent. of total other operating income in 2008. Accordingly, the £66 million increase in other operating income between 2007 and 2008 was primarily due to the acquisition of the Resolution Group. Excluding the effects of this acquisition, OPB's other operating income decreased by approximately £1 million.

5.6 Net income

As a result of the foregoing factors, OPB's net income changed by £7,642 million between 2008 and 2009, from a net loss of £1,160 million for the year ended 31 December 2008 to net income of £6,482 million for the year ended 31 December 2009. OPB's net income changed by £2,832 million between 2007 and 2008, from net income of £1,672 million for the year ended 31 December 2007 to a net loss of £1,160 million for the year ended 31 December 2008. Net income attributable to the Resolution Group represented approximately 68 per cent. of OPB's net income in 2009, while the net loss attributable to the Resolution Group represented approximately 37 per cent. of OPB's net loss in 2008.

5.7 Net policyholder claims and benefits incurred

The table below sets forth a breakdown of OPB's net policyholder claims and benefits incurred for the years ended 31 December 2009, 2008 and 2007.

	Year ended 31 December		
	2009	**2008**	**2007**
	£ million	*£ million*	*£ million*
Policyholder claims	(5,984)	(5,640)	(2,185)
Reinsurance recoveries	189	112	2
Net policyholder claims	**(5,795)**	**(5,528)**	**(2,183)**
Change in insurance contract liabilities	2,128	5,124	982
Change in reinsurers' share of insurance contract liabilities	117	(74)	(2)
Transfer (to)/from unallocated surplus	(129)	342	44
Net change in insurance contract liabilities	**2,116**	**5,392**	**1,024**
Net policyholder claims and benefits incurred	**(3,679)**	**(136)**	**(1,159)**

(a) Net policyholder claims

OPB's net policyholder claims for the year ended 31 December 2009 increased by £267 million, or 5 per cent., to £5,795 million, from £5,528 million for the year ended 31 December 2008. Net policyholder claims attributable to the Resolution Group increased by approximately £790 million, or 23 per cent., primarily as a result of the consolidation of the Resolution Group's financial results in

2009 for a full year (as opposed to eight months in 2008). On a like-for-like basis, policyholder claims attributable to the Resolution Group decreased between 2008 and 2009, primarily as a result of certain large blocks of business maturing in 2008 but not in 2009. Net policyholder claims attributable to OPB (excluding the Resolution Group) decreased by approximately £523 million, or 25 per cent., primarily as a result of a decrease in surrender and other claims.

OPB's net policyholder claims for the year ended 31 December 2008 increased by £3,345 million to £5,528 million, from £2,183 million for the year ended 31 December 2007. Policyholder claims and reinsurance recoveries each increased between 2007 and 2008 as a result of the acquisition of the Resolution Group. Net policyholder claims attributable to the Resolution Group represented approximately 63 per cent. of total net policyholder claims in 2008. Excluding the effects of this acquisition, OPB's net policyholder claims decreased by approximately £125 million, or 6 per cent., as a result of a decrease in policyholder claims.

(b) Net change in insurance contract liabilities

The net change in OPB's insurance contract liabilities for the year ended 31 December 2009 was a decrease of £2,116 million, as compared to a decrease of £5,392 million for the year ended 31 December 2008. Despite an increase in policyholder claims, the decrease in insurance contract liabilities in 2009 was less than in 2008 primarily as a result of improved market conditions, which increased with profit and unit linked liabilities by over £1.7 billion and a decrease in the discount rate on policyholder liabilities, which in turn increased the present value of the insurance contract liabilities as at the year-end.

The net change in OPB's insurance contract liabilities for the year ended 31 December 2008 was a decrease of £5,392 million, as compared to a decrease of £1,024 million for the year ended 31 December 2007. The decrease in insurance contract liabilities attributable to the Resolution Group represented 63 per cent. of the total £5,392 million decrease in insurance contract liabilities in 2008. The decrease in insurance contract liabilities was greater in 2008 than in 2007 primarily as a result of the increase in policyholder claims discussed above, which, in turn, reduced insurance contract liabilities.

5.8 Change in investment contract liabilities

The change in OPB's investment contract liabilities for the year ended 31 December 2009 was an increase of £1,238 million, as compared to a decrease of £1,747 million for the year ended 31 December 2008. The increase in investment contract liabilities attributable to the Resolution Group represented approximately 57 per cent. of the total £1,238 million increase in investment contract liabilities in 2009. The increase in investment contract liabilities in 2009 was primarily due to increases in the value of the assets underlying OPB's investment contract liabilities, as a result of improved market conditions.

The change in OPB's investment contract liabilities for the year ended 31 December 2008 was a decrease of £1,747 million, as compared to an increase of £285 million for the year ended 31 December 2007. The decrease in investment contract liabilities attributable to the Resolution Group represented approximately 57 per cent. of the total £1,747 million decrease in investment contract liabilities in 2008. Excluding the effects of the acquisition of the Resolution Group, OPB's investment contract liabilities decreased by approximately £745 million in 2008. As the value of the assets underlying OPB's investment contract liabilities decreased as a result of the economic conditions in the second half of 2008, those liabilities decreased as well.

5.9 Impairment of acquired in-force business

As a result of improved market conditions in the second half of 2009, there was no impairment of acquired in-force business in 2009.

The impairment of acquired in-force business for the year ended 31 December 2008 increased to £408 million, from nil for the year ended 31 December 2007. This increase was primarily attributable to the acquisition of the Resolution Group. In connection with such acquisition, the fair value of the Resolution Group's insurance and investment contracts that were acquired by OPB (less the liabilities associated with those contracts measured in accordance with the Group's accounting policies for such contracts) was reflected in OPB's balance sheet under acquired in-force business. In addition to being amortised over the lives of the related contracts, acquired in-force business is tested for impairment in line with OPB's accounting policies. An impairment charge of £408 million was recognised in 2008 as a result of writing down the acquired in-force business to its value in use as at 31 December 2008.

Such impairment reflects the impact of the adverse financial and economic conditions in the second half of 2008 on the Resolution Group's business.

5.10 Total administrative expenses

The table below sets forth a breakdown of OPB's total administrative expenses for the years ended 31 December 2009, 2008 and 2007.

	Year ended 31 December		
	2009	**2008**	**2007**
	£ million	*£ million*	*£ million*
Administrative expenses	(728)	(667)	(137)
Amortisation of customer relationships and other intangibles	(10)	(10)	—
Impairment of customer relationships and other intangibles	—	(45)	—
Total administrative expenses	**(738)**	**(722)**	**(137)**

OPB's total administrative expenses for the year ended 31 December 2009 increased by £16 million, or 2 per cent., to £738 million, from £722 million for the year ended 31 December 2008. This increase was primarily due to an increase of £61 million in administrative expenses, primarily as a result of expenses incurred in connection with OPB's restructuring and debt refinancing and the consolidation of the Resolution Group's financial results in 2009 for a full year (as opposed to eight months in 2008). Partially offsetting this effect was a decrease of £45 million in impairment of customer relationships and other intangibles primarily as a result of improved market conditions in the second half of 2009.

OPB's total administrative expenses for the year ended 31 December 2008 increased by £585 million to £722 million, from £137 million for the year ended 31 December 2007. Total administrative expenses attributable to the Resolution Group represented approximately 85 per cent. of total administrative expenses in 2008. Accordingly, the £585 million increase in total administrative expenses between 2007 and 2008 was primarily due to the acquisition of the Resolution Group. Excluding the effects of this acquisition, OPB's administrative expenses decreased by approximately £27 million, or 20 per cent., primarily as a result of a £9 million decrease in investment management expenses and a £10 million decrease in other administrative expenses.

5.11 Net (income) / expense attributable to unit holders

OPB's net income attributable to unit holders for the year ended 31 December 2009 was £29 million, as compared to a net expense attributable to unit holders of £140 million for the year ended 31 December 2008. This change was primarily due to positive net investment income of £4,555 million in 2009, as compared to negative net investment income of £2,668 million in 2008 (see "—Results of Operations for OPB—Net investment income" of this Part VIII).

OPB's net expense attributable to unit holders for the year ended 31 December 2008 was £140 million, as compared to net (income) / expense to unit holders of nil for the year ended 31 December 2007. This change was primarily due to negative net investment income of £2,668 million in 2008. Net (income) / expense attributable to unit holders was nil in 2007 on account of OPB's holding in its unit trusts and collective investment schemes being 100 per cent. OPB acquired stakes in unit trusts and collective investment schemes in which others held non-controlling interests in connection with its acquisition of the Resolution Group.

For more information on the relationship between "net expense attributable to unit holders" and "net income attributable to unit holders", see "—Key Line Items—Net (income) / expense attributable to unit holders" of this Part VIII.

5.12 Other operating expenses

Other operating expenses, which include acquisition costs, changes in present value of future profits and amortisation of acquired in-force business, for the year ended 31 December 2009 decreased by £27 million, or 18 per cent., to £123 million, from £150 million for the year ended 31 December 2008. This decrease was primarily due to a lower impairment of the present value of future profits, primarily as a result of improved market conditions in the second half of 2009. Partially offsetting this effect were a £4 million increase in acquisition costs and a marginal increase in amortisation of acquired in-force business.

Other operating expenses for the year ended 31 December 2008 increased by £137 million to £150 million, from £13 million for the year ended 31 December 2007. Approximately 82 per cent. of this £137 million increase was due to the acquisition of the Resolution Group, which resulted in OPB incurring a £98 million charge for the amortisation of acquired in-force business in the year ended 31 December 2008 (see "—Results of Operations for OPB—Impairment of acquired in-force business" of this Part VIII above).

5.13 Profit / (loss) before finance costs and tax

As a result of the foregoing factors, OPB's profit / (loss) before finance costs and tax changed by £1,364 million between 2008 and 2009, from a loss of £689 million for the year ended 31 December 2008 to a profit of £675 for the year ended 31 December 2009. OPB's profit / (loss) before financing costs and tax for the year ended 31 December 2008 changed by £767 million between 2007 and 2008, from a profit of £78 million for the year ended 31 December 2007 to a loss of £689 million for the year ended 31 December 2008. The £225 million profit before finance costs and tax attributable to the Resolution Group represented approximately 33 per cent. of OPB's total profit before finance costs and tax in 2009, while the £511 million loss before finance costs and tax attributable to the Resolution Group represented approximately 74 per cent. of OPB's total loss before finance costs and tax in 2008.

5.14 Finance costs

The table below sets forth a breakdown of OPB's finance costs for the years ended 31 December 2009, 2008 and 2007.

	Year ended 31 December		
	2009	**2008**	**2007**
	£ million	*£ million*	*£ million*
Interest expense:			
On borrowings at amortised cost	(311)	(591)	(242)
On borrowings at fair value through profit or loss	(50)	(1)	—
Debt issue costs	(138)	(91)	(2)
Total	**(499)**	**(683)**	**(244)**

OPB's finance costs for the year ended 31 December 2009 decreased by £184 million, or 27 per cent., to £499 million, from £683 million for the year ended 31 December 2008. As a result of its acquisition by the Company in September 2009, the terms of OPB's external debt were restated, which contributed to a decrease in OPB's interest expense. Also contributing to the decreased interest expense were lower interest rates. Partially offsetting these effects was the consolidation of finance costs attributable to the Resolution Group in 2009 for a full year (as opposed to eight months in 2008).

OPB's finance costs for the year ended 31 December 2008 increased by £439 million to £683 million, from £244 million for the year ended 31 December 2007. The £439 million increase in finance costs was primarily due to the additional finance costs incurred with respect to the debt used to finance the acquisition of the Resolution Group. The remainder of the increase in finance costs was due to interest payments on debt that was acquired along with the Resolution Group.

5.15 Profit / (loss) for the year before tax

As a result of the foregoing factors, OPB's profit / (loss) for the year before tax changed by £1,548 million between 2008 and 2009, from a loss of £1,372 million for the year ended 31 December 2008 to a profit of £176 million for the year ended 31 December 2009. OPB's loss for the year before tax for the year ended 31 December 2008 increased by £1,206 million to £1,372 million, from £166 million for the year ended 31 December 2007. The £89 million profit for the year before tax attributable to the Resolution Group represented approximately 51 per cent. of OPB's total profit for the year before tax in 2009, while the £731 million loss for the year before tax attributable to the

Resolution Group represented approximately 53 per cent. of OPB's total loss for the year before tax in 2008.

5.16 Tax credit

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

The table below sets forth a breakdown of OPB's tax credit between owners' tax and policyholder tax for the years ended 31 December 2009, 2008 and 2007.

	Year ended 31 December		
	2009	**2008**	**2007**
	£ million	*£ million*	*£ million*
Owners' tax credit / (charge)	48	333	(42)
Policyholder tax credit	—	106	71
Tax credit	**48**	**439**	**29**

For the year ended 31 December 2009, OPB received a tax credit of £48 million, despite a profit before owners' tax of £176 million, primarily as a result of a decrease in deferred tax on movements in the non profit surplus of £90 million and net tax losses on corporate restructuring not matched in the accounts of £25 million.

Owners' tax for the year ended 31 December 2008 represents an effective rate of 26 per cent. on a loss before owners' tax of £1,266 million (relative to an average UK corporation tax rate of 28.5 per cent). The reduction in the tax rate was mainly due to the impact of non-taxable losses of £134 million and changes in policyholder tax calculation methodology resulting in an adjustment of £85 million, partially offset by a £126 million adjustment in respect of prior years and a £67 million decrease in deferred tax on movement in non profit surplus. For the year ended 31 December 2007, OPB incurred an owners' tax charge of £42 million, despite a loss before owners' tax of £95 million, which was primarily due to profits taxed at rates other than 30 per cent., largely related to a non-deductible loss incurred by Opal Re, which increased the tax charge by £60 million.

Policyholders of OPB received tax credits of £106 million in 2008 and £71 million in 2007 primarily as a result of investment losses in both of those years. In 2009, there was no policyholder tax charge or credit.

5.17 Profit / (loss) for the year

As a result of the foregoing factors, OPB's profit / (loss) for the year changed by £1,157 million between 2008 and 2009, from a loss of £933 million for the year ended 31 December 2008 to a profit of £224 million for the year ended 31 December 2009. OPB's loss for the year increased by £796 million between 2007 and 2008, from £137 million for the year ended 31 December 2007 to £933 million for the year ended 31 December 2008. The £71 million profit for the year attributable to the Resolution Group represented approximately 32 per cent. of OPB's total profit for the year in 2009, while the £525 million loss for the year attributable to the Resolution Group represented approximately 56 per cent. of the OPB's total loss for the year in 2008.

5.18 Non-controlling interests

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

The Notes are unsecured obligations of PGH1 and are subordinate to the claims of senior creditors. Payments in respect of the Notes are conditional upon PGH1 being solvent at the time of payment and immediately following such payment. The Notes have no fixed maturity date and interest payments may be deferred at the option of PGH1; accordingly, the Notes meet the definition of equity for financial reporting purposes. As the Notes are not held by OPB, they are disclosed as a non-controlling interest in the Aggregated OPB Financial Information.

The £24 million profit and £17 million profit attributable to the Notes in 2009 and 2008, respectively, relate to the interest coupon on the Notes. Such Notes receive coupon interest only and do not otherwise share in the profits of OPB. For further information, see Part XI: "Additional Information—Material Contracts—Tier 1 Bonds".

As OPB's policyholder long-term funds hold in excess of 75 per cent. of the units of UK Commercial Property Trust Limited (such interest having been acquired in connection with the acquisition of the Resolution Group), in accordance with IFRS, 100 per cent. of the trust's profits and losses are consolidated with OPB's financial results. The profit of £23 million for the year ended 31 December 2009 and the loss of £30 million for the year ended 31 December 2008 represent the share of the profits and losses, respectively, of the trust that are attributable to the external investors who hold the remaining units in the trust.

As OPB did not acquire the Resolution Group until May 2008, non-controlling interests for the year ended 31 December 2007 are nil.

6 OPERATING PROFIT FOR OPB

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

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

- Impairment and amortisation of acquired in-force business and other intangibles, and
- Non-recurring items.

For a reconciliation of operating profit to IFRS profit / (loss) for the year, see "—Operating profit for OPB—Reconciliation of OPB's operating profit" of this Part VIII.

6.1 Analysis of OPB's operating profit

The following table is an analysis of OPB's operating profit for the years ended 31 December 2009, 2008 and 2007.

	Year ended 31 December		
	2009	**2008**	**2007**
	£ million	*£ million*	*£ million*
Phoenix Life	469	549	281
Ignis Asset Management	34	29	1
Corporate costs	(41)	14	25
Operating profit before tax	**462**	**592**	**307**

(a) Phoenix Life

Operating profit for Phoenix Life is based on expected investment returns on financial investments backing owners and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities. Operating profit includes the effect of variance in experience for non-economic items, such as mortality, persistency and expenses, and the effect of changes in non-economic assumptions reflecting the Group's experience. Changes due to economic items, such as market value movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit. Phoenix Life operating profit is net of policyholder finance charges and tax.

The expected return on investments for both policyholder and owners funds is based on opening economic assumptions applied to the funds under management at the beginning of the reporting period. Expected investment return assumptions are derived based on market yields on risk-free fixed interest assets at the start of each financial year. Margins are applied on a consistent basis across the Group to gross risk-free yields, to obtain investment return assumptions for equities and properties. The principal assumptions underlying the calculation of the longer term investment return are set out in the Aggregated OPB Financial Information contained in the Annex.

The following table sets forth a breakdown of OPB's operating profit for Phoenix Life for the years ended 31 December 2009, 2008 and 2007.

	Year ended 31 December		
	2009	**2008**	**2007**
	£ million	*£ million*	*£ million*
With profit	49	61	23
With profit where internal capital support provided	20	132	78
Non profit and unit linked	331	283	107
Longer term return on owner's funds	55	69	59
Management services	14	4	14
Phoenix Life operating profit	**469**	**549**	**281**

(i) With profit

The with profit operating profit represents shareholders' one-ninth share of policyholder with profit bonus. The with profit operating profit for the year ended 31 December 2009 decreased by £12 million to £49 million, from £61 million for the year ended 31 December 2008. This decrease reflects the impact of the difficult market conditions in 2008 and the first half of 2009 on the value of the with profit estate and the declaration of bonuses, which affected both the Resolution Group and OPB (excluding the Resolution Group). The positive impact of the market recovery on the financial investments backing the with profit business in the second half of the year is expected to be taken into consideration in setting bonus rates for 2010 along with the market performance for the first quarter of 2010.

The with profit operating profit for the year ended 31 December 2008 increased by £38 million to £61 million, from £23 million for the year ended 31 December 2007. This increase was primarily due to the acquisition of the Resolution Group. Excluding the effects of this acquisition, the operating profit decreased by approximately £4 million, reflecting the difficult economic market conditions as referred to above.

(ii) With profit where internal capital support provided

The operating profit on with profit funds where internal capital support has been provided decreased by £112 million to £20 million for the year ended 31 December 2009, from £132 million for the year ended 31 December 2008. The decrease primarily relates to lower expected investment returns and a negative assumption change as a result of a reduction in assumed surrender rates in funds with valuable policyholder guarantees.

The operating profit on with profit funds where internal capital support has been provided increased by £54 million to £132 million for the year ended 31 December 2008, from £78 million for the year ended 31 December 2007. This increase was primarily due to the acquisition of the Resolution Group. Excluding the effects of this acquisition, the operating profit decreased by approximately £49 million, reflecting greater than expected losses arising from actual policy movements and lower than expected investment returns as the value of the with profit estate decreased due to difficult market conditions. The 2007 results benefited from positive assumption changes and the positive impact of management actions taken in the face of the adverse scenarios experienced towards the end of 2007.

(iii) Non profit and unit linked

The operating profit on non profit and unit linked funds for the year ended 31 December 2009 increased by £48 million to £331 million, from £283 million for the year ended 31 December 2008. The operating profit benefited from the impact of several management actions, harmonisation of longevity improvement factors across the Group and using updated industry tables. The impact of these favourable factors was partially offset by a reduction in assumed surrender rates in funds with valuable policyholder guarantees.

The operating profit on non profit and unit linked funds for the year ended 31 December 2008 increased by £176 million to £283 million, from £107 million for the year ended 31 December 2007. This increase was due to the acquisition of the Resolution Group. Excluding the effects of this acquisition, the operating profit decreased by approximately £7 million.

(iv) The longer term return on owners' funds

The longer term return on owners' funds for the year ended 31 December 2009 decreased by £14 million to £55 million, from £69 million for the year ended 31 December 2008. This decrease reflects the impact of lower shareholder asset values and a reduction in the longer-term rate of return applied in 2009 as compared to 2008, as a result of a decrease in gilt rates.

The longer term return on owners' funds for the year ended 31 December 2008 increased by £10 million to £69 million, from £59 million for the year ended 31 December 2007. This increase was due to the acquisition of the Resolution Group. Excluding the effects of this acquisition, the return decreased by approximately £32 million, for the reasons stated above.

(v) Management services

The operating profit for management services increased by £10 million between 2008 and 2009, from £4 million in 2008 to £14 million in 2009, due to the release of certain provisions related to legacy items.

The operating profit for management services for the year ended 31 December 2008 decreased by £10 million to £4 million, from £14 million for the year ended 31 December 2007. This decrease was primarily due to the acquisition of the Resolution Group. Excluding the effects of this acquisition, the operating profit increased by approximately £2 million.

(b) Ignis Asset Management

The operating profit for Ignis Asset Management for the year ended 31 December 2009 increased by £5 million to £34 million, from £29 million for the year ended 31 December 2008 as improved market conditions in the second half of 2009 had a positive impact on operating profit.

The operating profit for Ignis Asset Management for the year ended 31 December 2008 increased by £28 million to £29 million, from £1 million for the year ended 31 December 2007. This increase was primarily due to the acquisition of the Resolution Group. Excluding the effects of this acquisition, the operating profit increased by approximately £1 million.

(c) Corporate costs

Corporate costs include head office expenses as well as the net expected return on the pension scheme (i.e. expected return on the assets less the interest costs on the defined benefit obligation) and consolidation adjustments on insurance policies effected by the pension schemes with the Group. Corporate costs changed by £55 million between 2008 and 2009, from income of £14 million in 2008 to costs of £41 million in 2009. The increase is primarily due to a negative net expected return on the pension scheme of £25 million (2008: positive £15 million). This negative net expected return was primarily due to a decrease in pension assets at the start of 2009 following difficult market conditions in 2008 and a higher interest cost on the defined benefit obligation. Such obligation is discounted using AA corporate bonds yields, which were higher at the start of 2009 as a result of increased credit spreads. During 2007, OPB guaranteed returns on the pension scheme assets sufficient to ensure that there would be no funding shortfall by 30 June 2027. The 2009 and 2008 expected return on the pension scheme was set at the guaranteed return of gilts plus 1.3 per cent. As an integral part of the Company's acquisition of OPB, agreement was reached with the Trustees of the Pearl Scheme to replace the existing funding guarantee with a schedule of cash contributions (see "—Liquidity and Capital Resources—Cash flows—Shareholder cash flows" of this Part VIII).

Corporate costs were a positive amount for the years ended 31 December 2008 and 2007 as the net expected return on the pension scheme assets (i.e., expected return on the assets less the interest costs on the defined benefit obligation) was positive. Corporate costs for the year ended 31 December 2008 decreased by £11 million to income of £14 million, from income of £25 million for the year ended 31 December 2007. This decrease was partly due to the acquisition of the Resolution Group, which increased corporate costs (before pension costs) by approximately £4 million.

6.2 Reconciliation of OPB's operating profit

The following table reconciles OPB's operating profit before tax to IFRS profit after tax for the years ended 31 December 2009, 2008 and 2007.

	Year ended 31 December		
	2009	**2008**	**2007**
	£ million	*£ million*	*£ million*
Operating profit before adjusting items	**462**	**592**	**307**
Investment return variances and economic assumption changes on long-term business	386	(832)	(428)
Variance on owners' funds	(37)	(109)	19
Amortisation and impairment of acquired in-force business and other intangibles[(1)]	(101)	(516)	—
Non-recurring items	(183)	(82)	88
Profit before finance costs attributable to owners	**527**	**(947)**	**(14)**
Finance costs attributable to owners[(2)]	(351)	(319)	(81)
Profit before the tax attributable to owners	**176**	**(1,266)**	**(95)**
Tax attributable to owners	48	333	(42)
Profit for the year attributable to owners	**224**	**(933)**	**(137)**

(1) Differs from the IFRS financial information as they are net of policyholder tax.

(2) Differs from the IFRS financial information as the above number is net of interest expense on an interest rate swap.

(a) Investment return variances and economic assumption changes on long-term business

Investment return variances and economic assumption changes on long-term business changed by £1,218 million between 2008 and 2009, from a charge of £832 million in 2008 to a credit of £386 million in 2009. This change was primarily due to narrowing credit spreads, stronger performance on hedge fund investments and favourable property returns in the second half of 2009. In addition, OPB's annuity liabilities which are reinsured internally to Opal Re are discounted using a valuation rate that does not reflect the inclusion of a liquidity premium consistent with the regulatory reporting for these liabilities. It is industry practice to allow for a liquidity premium when discounting annuity liabilities and the exclusion of the liquidity premium increases the volatility of the results. In 2009, as liquidity premiums decreased following improved liquidity in the capital markets the value of the assets backing these liabilities increased and this increase was not offset by an associated increase in the value of liabilities. This mismatch is reported outside of the operating profit in investment return variances and has contributed to the positive change in 2009 as compared to 2008.

Negative investment return variances and economic assumption changes for the year ended 31 December 2008 increased by £404 million to a charge of £832 million, from a charge of £428 million for the year ended 31 December 2007. Excluding the effects of the acquisition of the Resolution Group, the negative investment return variances and economic assumption changes increased by approximately £69 million, reflecting the impact of the difficult economic conditions in 2008, in particular the widening of credit spreads on corporate bonds, declines in equity and property prices and losses on hedge fund investments. In addition, as discussed above, the exclusion of a liquidity premium for the annuity liabilities reinsured internally to Opal Re contributed to the significant negative investment variances in 2008 as compared to 2007. This is because increased liquidity premiums in 2008 (as a result of reduced liquidity in the capital markets in 2008) reduced the value of assets supporting these liabilities but there was no offsetting impact in the valuation of the corresponding liabilities.

(b) Variance on owners' funds

Variance on owners' funds decreased by £72 million, from a charge of £109 million for the year ended 31 December 2008 to a charge of £37 million for the year ended 31 December 2009. This decrease was primarily due to improved market conditions in the second half of 2009.

Variance on owners' funds changed by £128 million between 2007 and 2008, from income of £19 million for the year ended 31 December 2007 to a charge of £109 million for the year ended 31 December 2008. This change was primarily due to the difficult economic conditions in 2008. Variance on owners' funds for the Resolution Group in 2008 was not material.

(c) Amortisation and impairment of acquired in-force business and other intangibles

The amortisation and impairment of acquired in-force business and other intangibles assets for the year ended 31 December 2009 decreased to £101 million, from £516 million for the year ended 31 December 2008. This is primarily because there were no impairments of acquired in-force business and other intangibles in 2009 as opposed to 2008 when a significant impairment was recognised as discussed below.

The amortisation and impairment of acquired in-force business and other intangibles assets for the year ended 31 December 2008 increased to £516 million, from nil for the year ended 31 December 2007. This increase was primarily attributable to the acquisition of the Resolution Group. In connection with such acquisition, the fair value of the Resolution Group's insurance and investment contracts that were acquired by OPB (less the liabilities associated with those contracts measured in accordance with the Group's accounting policies for such contracts) was reflected in OPB's balance sheet under acquired in-force business. In addition to being amortised over the lives of the related contracts, this intangible asset is tested for impairment in line with OPB's accounting policies. An impairment charge of £408 million was recognised in 2008 as a result of writing down acquired in-force business to its value in use as at 31 December 2008. Such impairment reflected the adverse economic conditions experienced in the second half of 2008. The remaining charge of £108 million relates to the amortisation of the acquired in-force business and other intangible assets.

(d) Non-recurring items

Non-recurring items in 2009 include the following:

- A charge of £82 million related to the court approved Guaranteed Annuity Option Compromise scheme for Phoenix & London Assurance. This removed longevity risk in the relevant part of the business whilst providing policyholder benefit enhancements. This amount is higher than the charge recognised under MCEV due to the more prudent reserving basis. It is expected that this loss will unwind in the future through credits to the combined income statement.
- £27 million in costs associated with the Phoenix Life site rationalisation and associated staff reductions and the Group's transformation programme in respect of its OSPs (after amounts on charged to Royal London in respect of benefits related to the On-Sold Resolution Assets).
- £44 million of acquisition related expenditure.
- Other non-recurring items related to expenses incurred on the rebranding and integration of the asset management businesses, and the resolution of certain legacy issues.

Non-recurring items in 2008 include the following:

- As at 31 December 2007, OPB held a 25.9 per cent. equity investment in the Resolution Group via a 20.1 per cent. holding carried by Pearl Assurance and a 5.8 per cent. stake carried by PGH2. In 2008, Impala acquired these shares from Pearl Assurance and PGH2 at £7.20 per share as part of its acquisition of the Resolution Group. However, the consolidated balance sheet follows the rules of piecemeal acquisition accounting and reports a total fair value consideration for the Resolution Group. Because such fair value consideration comprises the price paid externally by OPB, previous fair value movements on revaluations of the investment are reversed. The reversal of previously recognised fair value gains in the consolidated income statement resulted in a non-recurring loss of £83 million (net of stamp duty cost).
- £39 million in costs associated with the Phoenix Life site rationalisation and associated staff reductions and the Group's transformation programme in respect of its OSPs (after amounts on charged to Royal London in respect of benefits related to the On-Sold Resolution Assets).

- The above expenses were partially offset by the impact of non-recurring assumption changes in the life divisions related to self employed retirement plans, which resulted in a gain of approximately £59 million.

Non-recurring items in 2007 include a £83 million gain in relation to fair value gains on the Group's investment in Resolution Group as discussed above.

(e) Finance costs attributable to owners

The following table sets forth a breakdown of finance costs attributable to owners for the years ended 31 December 2009, 2008 and 2007.

	Year ended 31 December		
	2009	**2008**	**2007**
	£ million	*£ million*	*£ million*
Finance costs	(213)	(228)	(79)
Debt issue costs	(138)	(91)	(2)
Finance costs attributable to owners	**(351)**	**(319)**	**(81)**

OPB's finance costs attributable to owners for the year ended 31 December 2009 decreased by £15 million to £213 million, from £228 million for the year ended 31 December 2008. As a result of its acquisition by the Company, OPB restructured part of its external debt, being the two facility agreements and the Royal London PIK. The remainder of the bank debt was refinanced and the terms amended. This restructuring, coupled with lower interest rates, has contributed to a decrease in finance costs in 2009 as compared to 2008, partially offset by the inclusion of a full year of finance costs of the Resolution Group and finance costs on the additional debt financing utilised in connection with OPB's acquisition of the Resolution Group (2008 only included eight months of these finance costs).

As part of the Acquisition, transaction fees of £202 million were paid to the banks as consideration to facilitate the transaction. The consideration was in the form of equity issued to the lenders. £129 million of these fees were expensed upfront as the related debt renegotiations were considered to be fundamental under IFRS. The remaining fees were deferred in the carrying value of the related liability and will be amortised as part of the effective yield adjustment. £9 million of the deferred fees was amortised in 2009.

OPB's finance costs attributable to owners for the year ended 31 December 2008 increased by £149 million to £228 million, from £79 million for the year ended 31 December 2007. This increase was primarily due to the acquisition of the Resolution Group and the additional debt financing utilised in connection with OPB's acquisition of the Resolution Group.

(f) Tax attributable to owners

Tax attributable to owners is discussed in Paragraph 5.16 of this Part VIII.

7 RESULTS OF OPERATIONS FOR THE RESOLUTION GROUP

The table below sets forth the Resolution Group's consolidated results of operations for the years ended 31 December 2008 and 2007.

	Year ended 31 December	
	2008[1]	2007
	£ million	*£ million*
Gross premiums written	1,677	2,104
Premiums ceded to reinsurers	(186)	(330)
Net premiums written	**1,491**	**1,774**
Fees and commissions	171	150
Net investment income	(2,174)	2,365
Total revenue (net of reinsurance payable)	**(512)**	**4,289**
Other operating income	71	9
Net income	**(441)**	**4,298**
Net policyholder claims and benefits incurred	(107)	(2,663)
Change in investment contract liabilities	1,373	(384)
Acquisition costs	(82)	(112)
Amortisation of acquired in-force business	(168)	(228)
Administrative expenses	(648)	(594)
Net expense / (income) attributable to unit holders	147	(99)
Other operating expenses	(29)	(89)
Profit before finance costs	**45**	**129**
Finance costs	(127)	(125)
(Loss) / profit for the year before other items	**(82)**	**4**
Gain on disposal of business to Royal London	280	—
Loss on disposal of subsidiaries	(372)	—
(Loss) / profit for the year before taxes	**(174)**	**4**
Tax (charge) / credit	(6)	132
(Loss) / profit for the year attributable to owners	**(180)**	**136**
Attributable to:		
Owners of the parent		
Ordinary shareholders	(180)	116
Perpetual reset capital securities	33	33
	(147)	**149**
Non-controlling interests	(33)	(13)
	(180)	**136**

(1) The results for the year ended 31 December 2008 have been classified as discontinued operations as all subsidiary operations were sold during the year. The continuing results of the parent entity are not material in the context of the total results.

7.1 Net premiums written

The Resolution Group's net premiums written for the year ended 31 December 2008 decreased by £283 million, or 16 per cent., to £1,491 million, from £1,774 million for the year ended 31 December 2007. This decrease was primarily due to the disposal on 1 May 2008 of PLAL and the SPILA group of companies, both of which were open to new business. Excluding the effects of this disposal, the Resolution Group's net premiums written decreased by approximately £56 million. Such decrease was consistent with the closed life fund business model and included a £13 million decrease in the net written premiums on the two books of business transferred to Royal London on 29 December 2008.

7.2 Fees and commissions

The table below sets forth a breakdown of the Resolution Group's fees and commissions for the years ended 31 December 2008 and 2007.

	Year ended 31 December	
	2008	**2007**
	£ million	*£ million*
Fund management based fees	91	82
Other fees	78	59
Commissions	2	9
Fees and commissions	**171**	**150**

The Resolution Group's fees and commissions for the year ended 31 December 2008 increased by £21 million, or 14 per cent., to £171 million, from £150 million for the year ended 31 December 2007. This increase was primarily due to an increase in the fair value of assets under management in the first half of 2008. The effects of this increase were partially offset by declining asset values as a result of deteriorating markets in the second half of 2008.

7.3 Net investment income

The table below sets forth a breakdown of the Resolution Group's net investment income for the years ended 31 December 2008 and 2007.

	Year ended 31 December	
	2008	**2007**
	£ million	*£ million*
Investment income		
Interest income on loans and deposits	74	254
Interest income on financial assets designated at fair value through profit and loss on initial recognition	2,083	1,805
Dividends	636	404
Rental income	106	145
	2,899	2,608
Fair value gains / (losses)		
Financial assets at fair value through profit and loss		
Held for trading – derivatives	*578*	*(179)*
Designated upon initial recognition	*(4,994)*	*232*
Investment property	(657)	(296)
	(5,073)	(243)
Net investment income	**(2,174)**	**2,365**

The Resolution Group's net investment income changed by £4,539 million between 2007 and 2008, from income of £2,365 million for the year ended 31 December 2007 to a loss of £2,174 million for the year ended 31 December 2008. This change was primarily due to a significant increase in fair value losses, the effects of which were partially offset by a £291 million increase in investment income. The increase in fair value losses was primarily due to the recognition of significant fair value losses in respect of certain financial assets (equities, fixed and variable rate income securities and collective investment schemes) and investment properties marked to fair value, as a result of widening credit spreads and declining equity and property markets in the second half of 2008.

7.4 Total revenue (net of reinsurance payable)

As a result of the foregoing factors, the Resolution Group's total revenue (net of reinsurance payable) changed by £4,801 million between 2007 and 2008, from total revenue of £4,289 million for the year ended 31 December 2007 to a total loss of £512 million for the year ended 31 December 2008.

7.5 Other operating income

The Resolution Group's other operating income for the year ended 31 December 2008 increased by £62 million to £71 million, from £9 million for the year ended 31 December 2007. This increase was primarily due to the Resolution Group receiving income from Royal London to cover expenses incurred by the Resolution Group in the period following the disposal of the On-Sold Resolution Assets, since the Resolution Group was still performing management services in respect of such On-Sold Resolution Assets.

7.6 Net income

As a result of the foregoing factors, the Resolution Group's net income changed by £4,739 million between 2007 and 2008, from net income of £4,298 million for the year ended 31 December 2007 to a net loss of £441 million for the year ended 31 December 2008.

7.7 Net policyholder claims and benefits incurred

The table below sets forth a breakdown of the Resolution Group's net policyholder claims and benefits incurred for the years ended 31 December 2008 and 2007.

	Year ended 31 December	
	2008	**2007**
	£ million	*£ million*
Policyholder claims	(5,661)	(5,692)
Reinsurance recoveries	305	326
Net policyholder claims	**(5,356)**	**(5,366)**
Change in insurance contract liabilities	5,151	2,715
Change in reinsurers' share of insurance contract liabilities	(232)	(14)
Transfer from unallocated surplus	330	2
Net change in insurance contract liabilities	**5,249**	**2,703**
Net policyholder claims and benefits incurred	**(107)**	**(2,663)**

(a) Net policyholder claims

The Resolution Group's net policyholder claims for the year ended 31 December 2008 decreased by £10 million to £5,356 million, from £5,366 million for the year ended 31 December 2007. Excluding the effects of the disposal of PLAL and the SPILA group of companies, the Resolution Group's net policyholder claims increased by approximately £85 million, or 2 per cent. as a result of a large block of maturing endowments.

(b) Net change in insurance contract liabilities

The net change in the Resolution Group's insurance contract liabilities for the year ended 31 December 2008 was a decrease of £5,249 million, as compared to a decrease of £2,703 million for the year ended 31 December 2007. The decrease in insurance contract liabilities in 2008 exceeded the decrease in such liabilities in 2007 primarily as a result of an increase in the discount rate on policyholder liabilities, which decreased the present value of insurance contract liabilities, as well as an increase of £328 million in the transfer from unallocated surplus to cover future bonuses following the difficult market conditions in 2008.

7.8 Change in investment contract liabilities

The change in the Resolution Group's investment contract liabilities for the year ended 31 December 2008 was a decrease of £1,373 million for the year ended 31 December 2008, as compared to an increase of £384 million for the year ended 31 December 2007. As the value of the assets underlying the Resolution Group's investment contract liabilities decreased as a result of the economic conditions in the second half of 2008, those liabilities decreased as well.

7.9 Acquisition costs

The table below sets forth a breakdown of the Resolution Group's acquisition costs for the years ended 31 December 2008 and 2007.

	Year ended 31 December	
	2008	**2007**
	£ million	*£ million*
Acquisition costs paid	72	97
Amortisation of deferred acquisition costs	10	15
Acquisition costs	**82**	**112**

The Resolution Group's acquisition costs for the year ended 31 December 2008 decreased by £30 million, or 27 per cent., to £82 million, from £112 million for the year ended 31 December 2007. This decrease was primarily due to the disposal of PLAL and the SPILA group of companies, both of which were open to new business. Excluding the effects of this disposal, acquisition costs decreased by £7 million, consistent with the reduction in net premiums written.

7.10 Amortisation of acquired in-force business

The amortisation of acquired in-force business for the year ended 31 December 2009 decreased by £60 million, or 26 per cent., to £168 million, from £228 million for the year ended 31 December 2008. This decrease was primarily due to a decrease of £463 million in acquired in-force business on the Resolution Group's balance sheet as at 1 May 2008 as a result of the disposal of PLAL and the SPILA group of companies and the transfer of two books of business to Royal London. The disposal of PLAL and the SPILA group of companies accounted for a decrease of £160 million in acquired in-force business, while the transfer of the above mentioned books of business accounted for a decrease of £303 million. Although the books of business were transferred to Royal London on 29 December 2008, the beneficial rights to the underlying business belonged to Royal London from 1 May 2008.

7.11 Administrative expenses

The Resolution Group's administrative expenses for the year ended 31 December 2008 increased by £54 million, or 9 per cent., to £648 million, from £594 million for the year ended 31 December 2007. This increase was due, in part, to expenses of £19 million incurred in 2008 in connection with the Glasgow office closure.

7.12 Net expense / (income) attributable to unit holders

The Resolution Group's net expense attributable to unit holders for the year ended 31 December 2008 was £147 million, as compared to net income attributable to unit holders of £99 million for the year ended 31 December 2007. This change was due to negative investment income of £2,174 million in 2008, as compared to positive investment income of £2,365 million in 2007 (see "—Results of Operations for the Resolution Group—Net investment income" of this Part VIII).

For more information regarding the relationship between net expense attributable to unit holders and net income attributable to unit holders, see "—Key Line Items—Net (income) / expense attributable to unit holders" of this Part VIII.

7.13 Other operating expenses

The table below sets forth a breakdown of the Resolution Group's other operating expenses for the years ended 31 December 2008 and 2007.

	Year ended 31 December	
	2008	2007
	£ million	*£ million*
Break fee paid to Friends Provident plc	—	(49)
Other corporate transaction costs	(29)	(28)
Deferred consideration paid to the with profit funds on the transfer of Alba Life to the owners' funds	—	(12)
Other operating expenses	**(29)**	**(89)**

The Resolution Group's other operating expenses for the year ended 31 December 2008 decreased by £60 million, or 67 per cent., to £29 million, from £89 million for the year ended 31 December 2007. This decrease was primarily due to several expenses in 2007 that did not recur in 2008. For instance, the Resolution Group incurred a £49 million break fee in 2007 in connection with the termination of the proposed merger between the Resolution Group and Friends Provident plc.

7.14 Profit before finance costs

As a result of the foregoing factors, the Resolution Group's profit before finance costs for the year ended 31 December 2008 decreased by £84 million, or 65 per cent., to £45 million, from £129 million for the year ended 31 December 2007.

7.15 Finance costs

The table below sets forth a breakdown of the Resolution Group's finance costs for the years ended 31 December 2008 and 2007.

	Year ended 31 December	
	2008	2007
	£ million	*£ million*
Interest expense	(126)	(123)
Other financing costs	(1)	(2)
Finance costs	**(127)**	**(125)**

7.16 (Loss) / profit for the year before other items

As a result of the foregoing factors, the Resolution Group's (loss) / profit for the year before other items changed by £86 million between 2007 and 2008, from a profit of £4 million for the year ended 31 December 2007 to a loss of £82 million for the year ended 31 December 2008.

7.17 Gain on disposal of business to Royal London

The gain on disposal of business to Royal London of £280 million for the year ended 31 December 2008 reflects the net profit the Resolution Group recognised on sale of the On-Sold Resolution Assets to Royal London.

7.18 Loss on disposal of subsidiaries

On 31 December 2008 PGH1 (previously Resolution) disposed of the entire issued share capital of its remaining investments in subsidiary undertakings via a transfer to Impala for consideration of £2,606 million. PGH1 recognised a loss of £372 million as a result of such disposal. The results of these subsidiaries have been included up to the date of disposal in the consolidated results of the Resolution Group (see "—Basis of Presentation—Components of the selected historical financial information—Financial information on the Resolution Group" of this Part VIII).

7.19 (Loss) / profit for the year before taxes

As a result of the foregoing factors, the Resolution Group's (loss) / profit for the year before taxes changed by £178 million between 2007 and 2008, from a profit of £4 million for the year ended 31 December 2007 to a loss of £174 million for the year ended 31 December 2008.

7.20 Tax (charge) / credit

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

The table below sets forth a breakdown of the Resolution Group's tax (charge) / credit between owners' tax and policyholder tax for the years ended 31 December 2008 and 2007.

	Year ended 31 December	
	2008	**2007**
	£ million	*£ million*
Owners' tax charge	(37)	(14)
Policyholder tax credit	31	146
Tax (charge) / credit	**(6)**	**132**

The Resolution Group incurred an owners' tax charge of £37 million for the year ended 31 December 2008, despite a loss before owners' tax of £143 million, primarily due to the disallowance of the net loss on the disposal of subsidiaries and other capital losses incurred during the year on which no tax benefit has been recognised. The effective tax rate of owners' tax for 2007 was 9 per cent. on a profit before owners' tax of £150 million (relative to a 30 per cent. corporation tax rate). The lower tax rate was primarily due to the decrease in the tax rate from 30 per cent. to 28 per cent. (which led to a release of £27 million in deferred tax), the recognition of tax losses / assets not previously valued arising from changes in tax legislation and other factors of £31 million and a net decrease in deferred tax on the movement in non profit surplus of £44 million. However, the disallowance of certain expenses and the write off of deferred tax amounts previously recognised increased the tax charge by £35 million and £22 million respectively.

Policyholders of the Resolution Group received tax credits of £31 million in 2008 and £146 million in 2007 due to investment losses in both of these years.

7.21 (Loss) / profit for the year attributable to owners

As a result of the foregoing factors, the Resolution Group's (loss) / profit for the year attributable to owners changed by £316 million between 2007 and 2008, from a profit of £136 million for the year ended 31 December 2007 to a loss of £180 million for the year ended 31 December 2008.

7.22 Perpetual reset capital securities

PGH1 has in issue £500 million of perpetual reset capital securities ("the Notes"), which are admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange.

The Notes are unsecured obligations of PGH1 and are subordinate to the claims of senior creditors. Payments in respect of the Notes are conditional upon PGH1 being solvent at the time of payment and immediately following such payment. The Notes have no fixed maturity date and interest payments may be deferred at the option of PGH1; accordingly, the Notes meet the definition of equity for financial reporting purposes.

The £33 million profit attributable to the Notes in 2008 and 2007 relates to the interest coupon on the Notes. Such Notes receive coupon interest only and do not otherwise share in the profits of Resolution.

7.23 Non-controlling interests

The Resolution Group's non-controlling interests are solely attributable to its interest in UK Commercial Property Trust Limited, which is a listed Guernsey based property trust. Because the Resolution Group's policyholder long-term funds hold in excess of 75 per cent. of the units of this trust, in accordance with IFRS 100 per cent. of its profits and losses are consolidated with the Resolution Group's financial results. The losses of £33 million and £13 million for the years ended 31 December 2008 and 2007, respectively, represent the share of the losses of the trust attributable to the external investors who hold the remaining units in the trust.

8 RESULTS OF OPERATION FOR THE GROUP

The table below sets forth the Group's consolidated results of operations for the year ended 31 December 2009 and the period from 2 January to 31 December 2008.

	Year ended 31 December 2009(1)	Restated period ended 31 December 2008(2)
	£ million	*£ million*
Gross premiums written	545	—
Premiums ceded to reinsurers	(31)	—
Net premiums written	**514**	**—**
Fees	101	—
Net investment income	1,032	33
Total revenue (net of reinsurance payable)	**1,647**	**33**
Other operating income	67	—
Net income	**1,714**	**33**
Net policyholder claims and benefits incurred	(834)	—
Change in investment contract liabilities	(429)	—
Acquisition costs	(8)	—
Change in present value of future profits	4	—
Amortisation of acquired in-force business	(50)	—
Amortisation of other intangible assets	(7)	—
Administrative expenses	(255)	(2)
Net income attributable to unit holders	43	—
Profit before finance costs and tax	**178**	**31**
Finance costs	(87)	—
Profit for the year before tax	**91**	**31**
Tax attributable to policyholders' returns	60	—
Profit before the tax attributable to owners	**151**	**31**
Tax attributable to owners	(16)	—
Profit for the year attributable to owners	**135**	**31**
Attributable to:		
Owners of the parent	95	31
Non-controlling interests	40	—
	135	**31**

(1) The Group's results of operations for the year ended 31 December 2009 consolidate OPB's results of operations from 28 August 2009.

(2) The Group's consolidated income statement for the period from 2 January to 31 December 2008 was restated, following a review of certain agreements relating to the Company's initial public offering, to classify the Founders' warrants as financial liabilities instead of equity instruments. In addition, the shares issued by the Company in its initial public offering that were originally classified by the Company as a financial liability, ''ordinary shares subject to possible redemption'', were reclassified as equity as it was considered that the obligation to give the holders of these Shares cash in exchange for their Shares, had they declined to be involved in an acquisition proposed by the Company, could have been avoided.

Prior to its acquisition of OPB in September 2009, the Company was a cash shell. Consequently, the increases in each of the above listed line items were primarily due to the acquisition of OPB and the subsequent consolidation of OPB's financial results for the last four months of 2009.

9 OPERATING PROFIT FOR THE GROUP

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

For more information on operating profit, see "—Operating profit for OPB" of this Part VIII.

9.1 Analysis of the Group's operating profit

The following table is an analysis of the Group's operating profit for the year ended 31 December 2009 and the period from 2 January to 31 December 2008.

	Year ended 31 December 2009		**Period from 2 January to 31 December 2008**
	Group(1)	Company and OPB(2)	Company
	£ million	*£ million*	*£ million*
Phoenix Life	285	469	—
Ignis Asset Management	14	34	—
Corporate costs	(17)	(46)	(2)
Operating profit before tax	**282**	**457**	**(2)**

(1) The Group's operating profit before tax includes the results of OPB for the period from 28 August 2009 to 31 December 2009.

(2) The Company and OPB operating profit is calculated as the operating profit of the Group, plus the operating profit of OPB for the period prior to its acquisition by the Company (1 January 2009 to 27 August 2009).

The following analysis provides an explanation of the Group's operating profit. Commentary on OPB's operating profit is set out in "—Operating profit for OPB—Analysis of OPB's operating profit" of this Part VIII.

(a) Phoenix Life

Operating profit for Phoenix Life is based on expected investment returns on financial investments backing owners and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities. Operating profit includes the effect of variances in experience for non-economic items, such as mortality, persistency and expenses, and the effect of changes in non-economic assumptions reflecting the Group's experience. Changes due to economic items, such as market value movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit. Life business operating profit is net of policyholder finance charges and tax.

The expected return on investments for both policyholder and owners funds is based on opening economic assumptions applied to the funds under management at the beginning of the reporting period. Expected investment return assumptions are derived based on market yields on risk-free fixed interest assets at the start of each financial year. Margins are applied on a consistent basis across the Group to gross risk-free yields, to obtain investment return assumptions for equities and properties. The principal assumptions underlying the calculation of the longer term investment return are set out in the Phoenix Financial Information contained in the Annex.

The following table sets forth a breakdown of the Group's operating profit for Phoenix Life for the year ended 31 December 2009 and the period from 2 January to 31 December 2008.

	Year ended 31 December 2009[(1)]	Period from 2 January to 31 December 2008
	£ million	*£ million*
With profit	20	—
With profit where internal capital support provided	30	—
Non profit and unit linked	201	—
Longer term return on owner's funds	17	—
Management services	17	—
Phoenix Life operating profit	**285**	—

(1) The Group's operating profit before tax includes the results of OPB for the period 28 August 2009 to 31 December 2009.

(i) With profit

The with profit operating profit represents shareholders' one-ninth share of policyholder with profit bonus. The with profit operating profit for the year ended 31 December 2009 was £20 million. This operating profit reflects the impact of lower terminal bonuses in 2009 following difficult market conditions. The positive impact of the market recovery on the financial investments backing the with profit business in the second half of 2009 is expected to be taken into consideration in bonus rates for 2010 along with the market performance for the first half of 2010.

(ii) With profit where internal capital support provided

The operating profit on with profit funds where internal capital support has been provided was £30 million for the year ended 31 December 2009. Operating profit benefited from the impact of several management actions and harmonisation of longevity improvement factors across the Group and using updated industry tables. These favourable impacts were partially offset by a reduction in assumed surrender rates in funds with valuable policyholder guarantees.

(iii) Non profit and unit linked

The operating profit on non profit and unit linked funds for the year ended 31 December 2009 was £201 million. This operating profit includes margin emergence and a return on surplus assets of £52 million. This return was supplemented with favourable non-economic experience variance as well as assumptions changes related to longevity (as discussed above) which were only partially offset by increased provisions for expenses as some funds moved from being managed on a passive to an active basis.

(iv) The longer term return on owners' funds

The longer term return on owners' funds for the year ended 31 December 2009 was £17 million. This operating profit reflects the asset mix of owners' funds, primarily cash-based assets and fixed interest securities.

(v) Management services

The operating profit for management services for the year ended 31 December 2009 was £17 million. This operating profit comprises income from the Group life companies in accordance with the respective management service agreements less fees related to the outsourcing of services and other operating costs.

(b) Ignis Asset Management

The Group's two asset management businesses have recently been integrated under the Ignis Asset Management brand, with the aim of enhancing the brand and revenue generation of the asset management businesses.

The operating profit for Ignis Asset Management for the year ended 31 December 2009 was £14 million. Improved market conditions in the second half of 2009 had a positive impact on the results of the combined asset management business.

(c) Corporate costs

Corporate costs for the year ended 31 December 2009 include four months of OPB's corporate costs. Corporate office costs and project spend amounted to £8 million. The balance of the costs relates primarily to the net expected return on the pension scheme and share-based payment charges on warrants issued.

Corporate costs in 2008 relate to the Company only and comprise a £2 million share-based payment charge on warrants issued. The fair value of the warrants is being charged over the two-year vesting period.

9.2 Reconciliation of the Group's operating profit

The following table reconciles the Group's operating profit before tax to IFRS profit after tax for the year ended 31 December 2009 and the period from 2 January to 31 December 2008.

	Year ended 31 December 2009(1)	Period from 2 January to 31 December 2008
	£ million	*£ million*
Operating profit before adjusting items	**282**	**(2)**
Investment return variances and economic assumption changes on long-term business	145	—
Variance on owners' funds	(70)	33
Amortisation and impairment of acquired in-force business and other intangibles(2)	(52)	—
Non-recurring items	(105)	—
Profit before finance costs attributable to owners	**200**	**31**
Finance costs attributable to owners(3)	(49)	—
Profit before the tax attributable to owners	**151**	**31**
Tax attributable to owners	(16)	—
Profit for the year attributable to owners	**135**	**31**

(1) Includes the results of OPB for the period from 28 August 2009 to 31 December 2009.

(2) Differs from the IFRS financial information as the above numbers are net of policyholder tax.

(3) Differs from the IFRS financial information as the above number is net of interest expense on an interest rate swap.

(a) Investment return variances and economic assumption changes on long-term business

The expected return on investments for both policyholder and owners' funds is based on opening economic assumptions applied to the funds under management at the beginning of the reporting period. Expected investment return assumptions are derived based on market yields on risk-free fixed interest assets at the start of each financial year. Margins are applied on a consistent basis across the Group to gross risk-free yields, to obtain investment return assumptions for equities and properties.

Investment return variances and economic assumption changes for the year ended 31 December 2009 was £145 million. The positive variance is primarily due to narrowing credit spreads, stronger performance on hedge fund investments and favourable property returns in the second half of 2009.

(b) Variance on owners' funds

Variance on owners' funds changed by £103 million, from a gain of £33 million for the period from 2 January to 31 December 2008 to a charge of £70 million for the year ended 31 December 2009. This change is due, in part, to the £51 million increase in fair value of the Company warrants which are accounted for as a financial liability. These warrants were issued at the time of the Company's initial public offering in February 2008. In addition the variance includes a £29 million foreign exchange loss incurred by Phoenix Group Holdings primarily related to its euro cash holdings prior to the acquisition of OPB.

(c) Amortisation of acquired in-force business and other intangibles

The amortisation of acquired in-force business and other intangibles assets for the year ended 31 December 2009 was £52 million. Acquired in-force business and other intangibles of £2.7 billion were recognised on the acquisition of OPB. The acquired in-force business is being amortised in line with the run-off of the acquired businesses. Amortisation of acquired in-force business during the period totalled £45 million. Amortisation of other intangible assets totalled £7 million in the period.

(d) Non-recurring items

Non-recurring items in 2009* include the following:

- A charge of £78 million related to the court approved Guaranteed Annuity Option Compromise scheme for Phoenix & London Assurance. This removed longevity risk in the relevant part of the business whist providing policyholder benefit enhancements. This amount is higher than the charge recognised under MCEV due to the more prudent reserving basis. It is expected that this loss will unwind in the future periods as margins of prudence in reserving for liabilities unwind through credits to the income statement.
- £13 million in costs associated with the Phoenix Life site rationalisation and associated staff reductions and the Group's transformation programme in respect of its OSPs (after amounts on charged to Royal London in respect of benefits related to the On-Sold Resolution Assets).

* Note that this includes the four-month period of post-Acquisition results for OPB.

(e) Finance costs attributable to owners

The following table sets forth a breakdown of finance costs attributable to owners for the year ended 31 December 2009 and the period from 2 January to 31 December 2008.

	Year ended 31 December 2009	**Period from 2 January to 31 December 2008**
	£ million	*£ million*
Debt finance costs[(1)]	(34)	—
Other finance costs	(15)	—
Finance costs attributable to owners	**(49)**	—

(1) Finance costs on the Impala and Pearl facility agreements (and associated swap interest) and the Royal London PIK.

The Group's finance costs attributable to owners for the year ended 31 December 2009 was £34 million. As a result of its acquisition by the Company, OPB restructured part of its external debt, being the two facility agreements and the Royal London PIK, reducing the external debt by £491 million (from the Group's perspective). In addition, the remainder of the £2.9 billion of external debt was restructured and the terms amended. Annualising the post acquisition finance costs on this debt of £34 million provides a more representative indication of the Group's future debt finance costs than the full year debt finance costs.

(f) Tax attributable to owners

The Group tax charge for the year attributable to owners is £16 million. This represents an effective tax rate of 11 percent on profits (after policyholder tax) of £151 million.

The Company is exempt from tax in the Cayman Islands on any profits, income, gains or appreciations for a period of 20 years from 15 January 2008. Consequently no tax was due from the Company in 2008 or 2009. In 2010 this exemption was extended to 30 years effective from 11 May 2010.

With effect from the date of the Acquisition, the Company has been managed and controlled from Jersey, where its permanent office premises are located. As a Jersey resident holding company, the Company is expected to be subject to a zero per cent. tax rate on its income. Consequently, tax charged for the Group primarily represents UK tax on profits earned in the UK, where the principal operating companies, excluding Opal Re, have their centre of operations.

The effective tax rate for 2009 has been impacted by a number of one-off events. These include the restructuring of National Provident Limited, which crystallised operational losses incurred in prior years, but not previously recognised for tax purposes, of £250 million.

As a result of tax losses brought forward and the losses realised by National Provident Limited in the year, the Group is not expected to pay any shareholder tax in 2009 and has significant excess tax losses and expenses at the end of the year which have not been recognised in full.

10 DIVIDEND POLICY

On 15 April 2010, the Company paid a dividend for the 2009 financial year in an amount equal to €0.17 per ordinary share, representing €0.50 per ordinary share pro rated from the date of completion of the acquisition of OPB to year end. In arriving at its dividend recommendation, the Board took into account the conditions contained in the Group's credit agreements which currently include provisions restricting the distribution of profits by the Group. The dividend recommendation reflects the maximum permitted dividend payment in respect of 2009. Over time, the Directors anticipate that the Group's dividend policy will be more closely aligned with the underlying cash generation of its operating businesses.

The Pearl Facility Agreement and the Impala Facility Agreement contain restrictions, based primarily on the need to comply with financial covenants and surplus cash provisions, on the distribution of profits by the Pearl Borrowers and the Impala Borrowers, which could affect the ability of the Company to declare and pay dividends. Specific provisions that contemplate the payment of dividends have been included in these facility agreements in relation to the distribution of profits. (See Part XI: "Additional Information—Material Contracts—Credit Facilities"). All dividends will be subject to the terms of the facility agreements, and are currently limited by them, and there can be no assurance as to the amount of any future dividends or that the Company will be able to pay any dividends at all in the future. (See Part II: "Risk Factors" for a discussion of certain factors that may prevent the Company from paying dividends).

For further information on dividends paid, see the following in Annex: "Audited Historical Financial Information":

- Note 14 in the consolidated financial information of Phoenix Group Holdings for the period from its incorporation on 2 January 2008 to 31 December 2008 and for the financial year ended 31 December 2009 (page F-36);
- Note 12 in the combined financial information for the Original Pearl Business for the financial years ended 31 December 2007, 31 December 2008 and 31 December 2009 (page F-122); and
- Note 14 in the consolidated financial information of Pearl Group Holdings (No. 1) Limited (previously Resolution plc) for the financial years ended 31 December 2007 and 31 December 2008 (page F-213).

11 CURRENT TRADING AND OUTLOOK

Note that all the financial information in this section "—Current Trading and Outlook" relating to the three-month period ended 31 March 2010 is unaudited.

The Group continues to enjoy strong operational performance. This is demonstrated by the cash generation of £270 million in the three months ended 31 March 2010 and the Group is on track to deliver its targets for cash flow and management actions. As the Group completes its integration plans for the operating businesses and delivers on its corporate objectives into 2011 and beyond, the Directors expect the Group to be well placed to fulfil its ambition to play the leading role in the safe decommissioning of the closed life sector. The Group's results for the three months ended 31 March 2010 demonstrate the strength of the Group's closed-book business model.

11.1 Cash generation

The UK Holding Companies' cash inflows remained strong in the three months to 31 March 2010 at £270 million. The table below sets out (i) the cash remittances to the UK Holding Companies from the Group's operating subsidiaries and (ii) the uses of the cash remittances, for the three months to 31 March 2010.

UK Holding Companies' cash flow

	For the three months ended 31 March 2010 *(unaudited)*
	£ million
Cash receipts	
Cash receipts from life companies	261
Cash receipts from Ignis Asset Management	9
Total receipts of cash	**270**
Uses of cash	
Non-recurring cash outflows	
IT and other business transformation costs	15
Listing and Tier I restructuring costs	4
Total non-recurring cash outflows	19
Recurring cash outflows	
Pension scheme contributions	2
Operating expenses	6
Debt interest	7
Total recurring cash outflows	15
Total uses of cash	**34**

Cash is typically distributed from the Group's life companies twice a year, following the full actuarial valuations at 31 December and 30 June of each year. Cash generation in the three months to 31 March 2010 of £270 million includes the receipts from the life companies following the 31 December 2009 valuation.

The Company is on track to deliver on its previously announced target for recurring cash flows from its operating subsidiaries of £400 to £500 million per annum.

In line with expectations, the Group incurred operating expenses of £6 million during the three months ended 31 March 2010. Non-recurring cash outflows in the year ending 31 December 2010 are expected to be significantly lower than in the year ended 31 December 2009.

11.2 Management actions

The Group is on track to deliver its targeted management actions for the year ending 31 December 2010 resulting in cash flow acceleration of £225 million over and above its target of £400 million to £500 million recurring cash flows and increases in embedded value of £145 million.

These management actions include:

- The transfer of the business of Phoenix & London Assurance into Phoenix Life Holdings Limited, which is likely to be completed in the final quarter of the year ending 31 December 2010.
- Restructuring of certain of the Group's outsourcer relationships anticipated to be completed in the second half of 2010.

- Utilisation of previously unrelieved tax losses within the Group and resolution of legacy tax and other issues.
- Recovery of collateral from Lehman Brothers.

The Company intends to commence discussions with its banking syndicates in the second half of 2010 with a view to the simplification of its two main credit facilities. The Group also intends in future to repay 10 per cent. of the amount outstanding on its two main credit facilities, which may permit a review of the existing dividend limits. Any such review or any amendment would require the agreement of the banking syndicates.

11.3 Capital

The IGD surplus remained robust at an estimated £1.3 billion as at 31 March 2010.

The Group's Solvency II project has been approved by the Board and is well underway. It is expected to deliver its next major milestone of entering the pre-application process for internal model approval by the FSA in July 2010. This is an important step which will allow the Group to progress obtaining approval to use internal models to calculate the solvency capital requirement (SCR) rather than relying on the standard formula. The Group's own models better reflect the risks within its businesses than the "one-size-fits-all" standard formula and should therefore give a more appropriate assessment of the capital required to support its business, consistent with how the business is managed.

It is also positive for the Group that the assumptions used in the latest quantitative impact study (QIS5) are much closer to those used in the Group's existing internal models than was the case in QIS4.

11.4 Assets under management

Assets under management at Ignis Asset Management increased to £69.4 billion as at 31 March 2010. The increase was due to the management of £2.9 billion of assets being brought in-house from a third party asset manager. The underlying position was stable as the impact of run-off of the internal funds managed by Ignis Asset Management was offset by new third party funds and positive market movements.

12 LIQUIDITY AND CAPITAL RESOURCES

12.1 Introduction

(a) The Company and the UK Holding Companies

The principal cash requirements of the Company and PLHL, PGH2, Impala, PGH1, LCA, LCB, LC1, LC2 and Pearl Life Holdings Limited (together, the "UK Holding Companies") are the payment of dividends to shareholders, the servicing of debt, contributions to the pension scheme and the payment of holding company expenses. The principal sources of cash for the Company and the UK Holding Companies are loans and shareholder dividends from operating subsidiaries.

(b) The life companies

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

The life companies are subject to various regulatory restrictions on the maximum amount of payments, including dividends, loans or cash advances, that they may make to their shareholders. The amount of cash that the life companies may distribute to the UK Holding Companies for onward distribution to the Company depends on the individual solvency position of each of the life companies and the overall solvency position of the Group, which is calculated at the level of the highest EEA insurance group holding company (the IGD solvency test). Cash may be distributed only to the extent that (i) the individual solvency positions of the life companies are positive and (ii) there is excess capital over and above an additional solvency buffer determined by the respective life company boards, subject to any regulatory limitations imposed and the restrictions set out in the Pearl Facility Agreement and the Impala Facility Agreement which are summarised in Part XI: "Additional Information—Material Contracts—Credit Facilities—Pearl Facility" and "—Impala Facility" respectively. In addition, the Group is required to ensure that it holds capital sufficient to cover 125 per cent. of its IGD solvency requirement at PLHL. See "—Liquidity and Capital Resources—Regulatory capital requirements—IGD Solvency" of this Part VIII.

(c) Transferring economic resources around or outside the Group

Subject to the preceding, the Group is not currently subject to any regulatory restrictions on moving economic resources around or outside the Group. The volatility caused by the severe market dislocation in the second half of 2008 had a negative impact on OPB's capital resources. On 5 November 2008, OPB informed the FSA that it had become aware that, as at 27 October 2008, the capital resources of PGH2, at that time, the highest EEA insurance holding company in OPB, were such that OPB, as at that date, was in technical breach of certain of the FSA's rules and principles regarding the amount of credit that can be taken for Tier 2 capital in relation to Tier 1 capital. To rectify this technical breach, Impala, with the FSA's permission, rebalanced its ratio of Tier 1 to Tier 2 capital by reclassifying the terms of certain of its Tier 2 securities so that they then counted as Tier 1 capital. Such rebalancing enabled OPB to bring its IGD solvency at PLHL back into surplus. No injection of new funds was required.

As a result of this technical breach, the FSA imposed an OIVOP notice. This notice prevented the regulated entities in OPB from moving economic resources around or outside OPB, unless the FSA gave its prior approval. The OIVOP notice also prevented a restructuring of any of the regulated entities within OPB without the prior approval of the FSA.

The OIVOP notice was lifted in connection with the acquisition of OPB by the Company and, accordingly, is no longer in force. The capital position of the life companies within the Group has improved considerably as a result of the acquisition of OPB by the Company, in large part due to a £450 million cash investment into the life and holding companies of the Group by the Company.

12.2 Cash flows

The statement of cash flows prepared in accordance with IFRS combines cash flows relating to policyholders and cash flows relating to shareholders, but the practical management of cash within the Group maintains a distinction between the two, as well as taking into account regulatory and other restrictions on availability and transferability of capital. For this reason, the following discussion of cash flows focuses on:

- the cash flows of the UK Holding Companies for the year ended 31 December 2009, which reflect cash flows relating only to shareholders and are therefore more representative of the cash that could potentially be distributed to the Group's shareholders ("Shareholder Cash Flows"). This cash flow information comprises the amounts that were remitted from the Group's operating subsidiaries to the Group's holding companies, together with the holding company outflows in the year ended 31 December 2009; and
- the cash flow statements prepared in accordance with IFRS for (a) the years ended 31 December 2009, 2008 and 2007 for OPB, (b) the years ended 31 December 2008 and 2007 for the Resolution Group, and (c) the years ended 31 December 2009 and 2008 for the Company, each of which reflects cash flows relating both to policyholders and to shareholders ("Policyholder and Shareholder Cash Flows").

(a) Shareholder Cash Flows

The table below sets out (i) the cash remittances to the Group's UK Holding Companies from the Group's operating subsidiaries and (ii) the uses of the cash remittances, for the year ended 31 December 2009.

	For the year ended 31 December 2009
	£ million
Cash receipts[(1)]	
Cash receipts from life companies	466
Cash equivalents released from life companies	194
Cash receipts from Ignis Asset Management	21
Cash receipts from management service companies	35
Total receipts of cash and cash equivalents	**716**
Uses of cash	
Non-recurring cash outflows	
Settlement with Royal London	*240*
IT and other business transformation costs	*67*
Debt interest[(2)]	*72*
Transaction and restructuring costs	30
Pension scheme contributions	25
Other	*10*
Total non-recurring outflows	444
Recurring cash outflows	
Pension scheme contributions[(3)]	*33*
Other operating expenses	*27*
Debt interest	*102*
Total recurring outflows	162
Total uses of cash	**606**

(1) Amounts received by UK Holding Companies in respect of group relief are included within the amounts receivable from the relevant subsidiaries.

(2) Includes £7 million of interest on swaps.

(3) Certain contributions are made directly by service companies to the pension scheme.

£466 million of cash and £194 million of cash equivalents were remitted by Phoenix Life from the emergence of surplus and regulatory capital releases. In addition a number of management actions have contributed to these remittances including fund restructuring (£115 million) and regulatory and legacy issue management (£160 million).

As a result of resolving certain legacy issues, receipts from life companies in 2009 also included remittance of a £170 million receivable due from Royal London to Phoenix Life Limited. Such amount is included in the above table within the £194 million of cash equivalents released from life companies. This receivable was used to offset amounts due to Royal London by other Group companies. Following a final payment to Royal London (included within the £240 million "settlement with Royal London" in the table above) in December 2009, the Group's true-up liabilities to Royal London (as described in "—Key Factors Affecting Results of Operations and Comparability—Acquisitions, disposals and restructurings" of this Part VIII) have now been settled.

The Group's UK Holding Companies incurred IT and other business transformaton costs of £67 million in 2009, including costs associated with the Group's transformation programme in respect of its OSPs. Known IT and other business transformation costs of the UK Holding Companies are expected to decrease by between 25 and 50 per cent. in 2010, and by a further 50 per cent. in 2011, when the current operational projects are expected to be completed.

During 2007, OPB and the trustees of the Pearl Group Staff Pension Scheme entered into a contract under which OPB guaranteed returns on the defined benefit Pearl Group Staff Pension Scheme assets sufficient to ensure that there would be no funding shortfall by 30 June 2027. As an integral part of the Company's acquisition of OPB, agreement was reached with the Trustees of the Pearl Group Staff Pension Scheme to replace the existing funding guarantee with a schedule of cash contributions of £50 million in 2009 followed by cash payments of £25 million per annum (subject to satisfaction of capital resources requirements) for a period of ten years, commencing on 30 September 2010. The first cash payment from the holding companies to the Pearl Group Staff Pension Scheme of £50 million (included above as £25 million recurring and £25 million non recurring) occurred in October 2009.

The UK Holding Companies paid interest of £167 million to their lending banks and Royal London in 2009. Annualising the £34 million post acquisition finance costs on this debt provides a more representative indication of the Group's future debt finance costs than the full year cash payments in respect of debt finance costs and forms the basis for the recurring (£102 million) / non recurring (£72 million) split as provided above.

(b) Target Cash Flows

The cash flow targets for the years ending 31 December 2010 to 2019 set out below are based on the Group's current assumptions and estimates. Changes in economic and other conditions may result in the actual cash flows being different to those targeted. Further information regarding risks which may affect the financial condition and prospects of the Group are set out in the Part II: "Risk Factors".

(i) Target cash flows for the year ending 31 December 2010

The Group has targeted recurring cash inflows of £400 million to £500 million and £225 million of additional cash inflows through management actions for the year ending 31 December 2010. The Group experienced recurring cash outflows of £27 million for recurring corporate costs, £33 million for pension contributions and £102 million for recurring interest on bank debt in the year ended 31 December 2009. The Group is targeting the same recurring cash outflows in the year ending 31 December 2010. Additionally the Group is targeting annual cash outflows of £27 million in respect of the coupon of the Tier 1 Bonds following amendments to their terms in April 2010 (for further information on the Tier 1 Bonds, see Part XI: "Additional Information—Material Contracts—Tier 1 Bonds").

(ii) Targeted cash flows for the period to 31 December 2019

The Group is targeting the generation of the following aggregate UK Holding Companies cash inflows in the financial years ending 31 December 2010 to 31 December 2014:

Sources of future cashflows	**Years ending 31 December 2010 to 31 December 2014**
VIF profits and unwind[(1)]	£1.1bn
Release of capital	£1.0bn
Management actions[(2)]	£0.3bn
Other [(3)]	£0.3bn
UK Holding Companies cash inflows	£2.7bn

(1) VIF profits and unwind represents the present value of future profits of covered business in the MCEV, expected to emerge into free surplus between 2010 - 2014, as previously disclosed in the Company's Annual Report and Accounts for the period ended 31 December 2009. Sensitivities in respect of the MCEV covered business are set out in Part VII: "Embedded Value Information".

(2) Only includes anticipated management actions in 2010 and 2011.

(3) Includes VIF of Ignis Asset Management and management services companies.

Management also targets £1.6 billion of UK Holding Companies cash inflows between 2015 and 2019.

(c) *Policyholder and Shareholder Cash Flows*

(i) *OPB*

The following table is based on OPB's statement of cash flows for the years ended 31 December 2009, 2008 and 2007.

	Year ended 31 December		
	2009	**2008**	**2007**
	£ million	*£ million*	*£ million*
Net cash flows from operating activities	(1,497)	1,658	1,369
Net cash flows from investing activities	(2)	1,318	(4)
Net cash flows from financing activities	(1)	2,575	(298)
Net (decrease) / increase in cash and cash equivalents	**(1,500)**	**5,551**	**1,067**
Cash and cash equivalents at the beginning of the year	7,575	2,023	954
Effect of exchange rate changes on cash and cash equivalents	1	1	2
Cash and cash equivalents at the end of the year	**6,076**	**7,575**	**2,023**

(A) Net cash flows from operating activities

OPB's net cash flows from operating activities changed by £3,155 million between 2008 and 2009, from a cash inflow of £1,658 million for the year ended 31 December 2008 to a cash outflow of £1,497 million for the year ended 31 December 2009. This change was primarily due to £1,514 million of cash absorbed by operations in 2009, as compared to £1,680 million of cash generated by operations in 2008. This £3,194 million change in cash (absorbed) / generated by operations was primarily due to (i) fair value gains with respect to financial assets of £1,434 million in 2009, as compared to fair value losses with respect to financial assets of £5,240 million in 2008 and (ii) no impairment of intangible assets in 2009, as compared to an impairment of £453 million in 2008. The effects of these movements were partially offset by (i) a change in OPB's profit / (loss) for the year before tax, from a loss for the year before tax of £1,372 million in 2008 to a profit for the year before tax of £176 million in 2009 and (ii) a smaller increase in working capital, from an increase in working capital of £3,597 million in 2008 to an increase in working capital of £931 million in 2009.

OPB's net cash flows from operating activities for the year ended 31 December 2008 increased by £289 million, or 21 per cent., to £1,658 million, from £1,369 million for the year ended 31 December 2007. This increase was primarily due to £1,680 million of cash generated by operations in 2008, as compared to £1,333 million of cash generated by operations in 2007. This £347 million increase in cash generated by operations was primarily due to (i) fair value losses with respect to financial assets of £5,240 million in 2008, as compared to fair value losses with respect to financial assets of £152 million in 2007; (ii) an impairment of intangible assets of £453 million in 2008, as compared to no impairment in 2007; and (iii) an interest expense on borrowings of £683 million in 2008, as compared to an interest expense on borrowings of £244 million in 2007. The effects of these movements were partially offset by (i) a change in OPB's loss for the year before tax, from a loss for the year before tax of £166 million in 2007 to a loss for the year before tax of £1,372 million in 2008 and (ii) a change in working capital, from a decrease in working capital of £1,151 million in 2007 to an increase in working capital of £3,597 million in 2008.

(B) Net cash flows from investing activities

OPB's net cash flows from investing activities for the year ended 31 December 2009 changed by £1,320 million, from a cash inflow of £1,318 million for the year ended 31 December 2008 to a cash outflow of £2 million for the year ended 31 December 2009. This change was primarily due to the acquisition of the Resolution Group in 2008 as discussed below.

OPB's net cash flows from investing activities for the year ended 31 December 2008 changed by £1,322 million, from a cash outflow of £4 million for the year ended 31 December 2007 to a cash inflow of £1,318 million for the year ended 31 December 2008. This change was primarily due to the acquisition of the Resolution Group, whose cash and cash equivalents on acquisition (£6,206 million) exceeded the cash consideration and acquisition costs paid by OPB (£4,887 million).

(C) Net cash flows from financing activities

OPB's net cash flows used in financing activities for the year ended 31 December 2009 were £1 million. Such net cash outflow was primarily due to a £682 million repayment of existing borrowings and £543 million of interest payments on its outstanding loans. Such effects were substantially offset by £687 of new borrowings and a £436 million capital contribution.

OPB's net cash flows from financing activities for the year ended 31 December 2008 were £2,575 million. Such net cash inflow primarily reflected £5,677 million of new borrowings, the effect of which was partially offset by a £2,542 million repayment of existing borrowings and £624 million of interest payments on its outstanding loans.

OPB's net cash flows used in financing activities for the year ended 31 December 2007 were £298 million. Such net cash outflow primarily reflected £229 million of interest payments on its outstanding loans and a £120 million repayment of existing borrowings, the effects of which were partially offset by £51 million of new share capital.

(ii) The Resolution Group

The following table is based on the Resolution Group's statement of cash flows for the years ended 31 December 2008 and 2007.

	Year ended 31 December	
	2008	**2007**
	£ million	*£ million*
Net cash flows from operating activities	1,982	2,246
Net cash flows from investing activities	(5,465)	(29)
Net cash flows from financing activities	(1,522)	(1,106)
Net (decrease) / increase in cash and cash equivalents	**(5,005)**	**1,111**
Cash and cash equivalents at the beginning of the year	5,005	3,894
Cash and cash equivalents at the end of the year	—	**5,005**

(A) Net cash flows from operating activities

The Resolution Group's net cash flows from operating activities for the year ended 31 December 2008 decreased by £264 million, or 12 per cent., to a cash inflow of £1,982 million, from a cash inflow of £2,246 million for the year ended 31 December 2007. This decrease was primarily due to £2,045 million of cash generated from operations in 2008, as compared to £2,383 million of cash generated from operations in 2007. This £338 million decrease in cash generated from operations was primarily due to (i) a £5,009 million change in working capital, from a decrease in working capital of £1,860 million in 2007 to an increase in working capital of £3,149 million in 2008 and (ii) a change in the Resolution Group's (loss) / profit before tax for the year, from a profit before tax for the year of £4 million in 2007 to a loss before tax for the year of £174 million in 2008. The effects of these movements were partially offset by (i) fair value losses on financial assets of £4,382 million in 2008, as compared to fair value gains on financial assets of £53 million in 2007 and (ii) fair value losses on investment property of £657 million in 2008, as compared to fair value losses on investment property of £296 million in 2007.

(B) Net cash flows from investing activities

The Resolution Group's net cash flows from investing activities for the year ended 31 December 2008 moved to a cash outflow of £5,465 million, from a cash outflow of £29 million for the year ended 31 December 2007. This increase was primarily due to the disposal by PGH1 of the entire issued share capital of its remaining investments in subsidiary undertakings to Impala, which resulted in £5,613 million of cash in subsidiaries being disposed of (the consideration for the sale of these subsidiaries was in the form on an intercompany loan and the novation of certain of PGH1's intercompany payables).

(C) Net cash flows from financing activities

The Resolution Group's net cash outflow from financing activities for the year ended 31 December 2008 increased by £416 million, or 38 per cent., to £1,522 million, from £1,106 million for the year ended 31 December 2007. This increase was primarily due to an increase of ordinary share dividends paid of £996 million as dividends were paid up from the life companies through PGH1 to Impala and the SPVs to settle a £1 billion bridging loan issued on the acquisition of the Resolution Group. In addition, following the acquisition of PGH1 by Impala a bank loan of £235 million was fully repaid in May 2008.

(D) Cash and cash equivalents at the end of the year

The Resolution Group's cash and cash equivalents for the year ended 31 December 2008 decreased to nil, from £5,005 million for the year ended 31 December 2007. This decrease reflects the transfer of Resolution's subsidiaries to Impala in 2008.

(iii) The Group

The following table is based on the statement of cash flows for the Group for the year ended 31 December 2009 and the period from 2 January to 31 December 2008.

	Year ended 31 December 2009	**Period from 2 January to 31 December 2008**
	£ million	*£ million*
Net cash flows from operating activities	(320)	—
Net cash flows from investing activities	6,739	(441)
Net cash flows from financing activities	(341)	438
Net increase / (decrease) in cash and cash equivalents	**6,078**	**(3)**
Cash and cash equivalents at the beginning of the period	2	—
Effect of exchange rate changes on cash and cash equivalents	1	5
Cash and cash equivalents at the end of the period	**6,081**	**2**

(A) Net cash flows from operating activities

The net cash flows from operating activities for the Group for the year ended 31 December 2009 increased to a cash outflow of £320 million, from nil for the period from 2 January to 31 December 2008. This increase was primarily due to the acquisition of OPB and the subsequent consolidation of OPB's financial results for the last four months of 2009. Prior to this acquisition the Company was a cash shell and consequently did not generate cash flows from operating activities.

(B) Net cash flows from investing activities

The net cash flows from investing activities for the Group for the year ended 31 December 2009 changed by £7,180 million, from a cash outflow of £441 million for the period from 2 January to 31 December 2008 to a cash inflow of £6,739 million for the year ended 31 December 2009. This change was primarily due to the acquisition of OPB, whose cash and cash equivalents on acqusition (£6,155 million) exceeded the cash consideration and acquisition costs paid by the Company (£9 million).

(C) Net cash flows from financing activities

The net cash flows from financing activities for the Group for the year ended 31 December 2009 changed by £779 million, from a cash inflow of £438 million for the period from 2 January to 31 December 2008 to a cash outflow of £341 million for the year ended 31 December 2009. The cash outflow in 2009 was primarily due to interest paid on borrowings acquired in the acquisition of OPB (£221 million) and the repayment of borrowings (£110 million). The cash inflow of £438 million in 2008 was from the issuance of share capital and warrants.

12.3 Regulatory capital requirements

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

For more information regarding the UK regulatory capital framework, see Part VI: "Regulation" of this Prospectus.

(a) Pillar 1

The following table sets forth, for each of the Group's main life companies, (i) its capital resources, (ii) its Pillar 1 regulatory capital requirements and (ii) the amount by which its capital resources exceed its Pillar 1 regulatory capital requirements, as at 31 December 2009.

	As at 31 December 2009		
	Capital resources	Pillar 1 regulatory capital requirements	Surplus
			£ million
Pearl Assurance[(1)]	1,820	969	851
London Life	288	79	209
NPI	111	58	53
Phoenix Life[(2)]	3,930	3,186	744
Phoenix & London Assurance	885	388	497

(1) Includes the surplus of Pearl Assurance's subsidiary, National Provident Life.

(2) Includes the surplus of Phoenix Life's subsidiaries, Phoenix Pensions and Scottish Mutual International.

(b) IGD Solvency

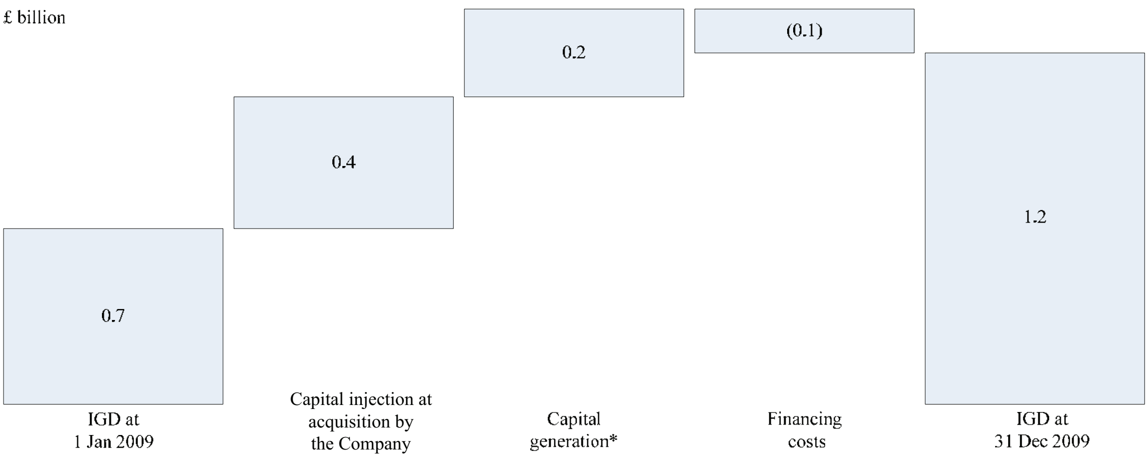
For the Company, the IGD calculation is performed at the PLHL level. This intermediate holding company is the ultimate insurance parent undertaking within the EEA, and therefore the Group is required to hold sufficient capital of appropriate quality to ensure that the IGD calculation at the PLHL level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

To provide an additional level of capital strength, the FSA requires the Group to hold IGD coverage of 125 per cent. That is, the Group's capital resources should represent 125 per cent. of the Group's capital resource requirement at PLHL.

The following table sets forth the components of the IGD calculation at PLHL.

	As at 31 December 2009
	£ billion
Group tier one capital after deductions	**4.4**
Group upper tier two capital	0.8
Group lower tier two capital	0.4
Group tier two capital – total	**1.2**
Group capital resources before deductions	**5.6**
Total deductions	(0.6)
Group capital resources	**5.0**
Group capital resource requirement	(3.8)
IGD surplus	**1.2**
Coverage	**132%**

The chart below sets forth the evolution of the IGD calculation at the ultimate EEA insurance parent undertaking from 31 December 2008 to 31 December 2009.



*This amount includes £52 million of established surplus on non profit business

The table below sets forth the IGD sensitivities at PLHL at 31 December 2009:

	As at 31 December 2009	
	IGD Surplus	Margin
	£ billion	*%*
IGD surplus	1.22	132%
IGD surplus following a 20 per cent. fall in equity markets	1.21	144%
IGD surplus following a 15 per cent. fall in property values	1.21	134%
IGD surplus following a 75bps parallel decrease in yields	1.23	131%
IGD surplus following credit spread widening(1)	1.12	131%
IGD surplus following a combined 20 per cent. fall in equity markets, 15 per cent. fall in property, 75bps fall in yields and credit spreads widening(1)	1.14	144%

(1) AAA – 100bps, AA – 113bps, A – 120bps, BBB – 153bps, BB – 370bps, B – 613bps.

The GCRR includes a WPICC, which is matched by the Group Capital Resources ("GCR") in the with profit funds. In stress scenarios, as the value of GCR falls, it is broadly offset by a corresponding decrease in the WPICC within the GCRR. Therefore, although both GCR and GCRR decline, the IGD surplus is not impacted to the same extent, which can cause the percentage margin to increase in stress scenarios.

The Group's ultimate insurance parent undertaking, the Company, is not within the EEA. Accordingly, the Group's UK life insurance companies, as with all EU life companies in groups where the ultimate insurance parent undertaking is not within the EEA, are also required to submit to their regulator a worldwide IGD calculation performed at the ultimate insurance parent undertaking level. The IGD calculation at the Company level is for reporting purposes only and the Group is not required to ensure that the calculation is positive. The IGD calculation as at 31 December 2009 is shown below, together with the relevant adjustments from the IGD calculation at the PLHL level, which primarily reflect the £2.9 billion of external bank debt and PIK Documents which are held in the Group above the PLHL level. This capital has been injected into PLHL and certain of its subsidiaries in the form of equity capital and subordinated loans.

	As at 31 December 2009
	£ billions
IGD calculation at the PLHL level	1.2
External bank debt and PIK Documents	(2.9)
Other adjustments	(0.2)
IGD calculation at the Company level	**(1.9)**

12.4 Contractual obligations

The following table provides a maturity analysis showing the remaining contractual maturities of the Group's undiscounted financial liabilities and associated interest as at 31 December 2009. Liabilities under insurance contract contractual maturities are included based on the estimated timings of the amounts recognised in the statement of consolidated financial position in accordance with the requirements of IFRS 4.

	As at 31 December 2009				
	1 year or less or on demand	**1 to 5 years**	**More than 5 years**	**No fixed term**	**Total**
	£ million	*£ million*	*£ million*	*£ million*	*£ million*
Liabilities under insurance contracts	10,141	14,539	23,748	1,863	50,291
Investment contracts	8,570	—	—	—	8,570
Borrowings	95	2,447	1,950	258	4,750
Deposits received from reinsurers	38	138	522	—	698
Derivatives	1,448	363	1,511	—	3,322
Net asset value attributable to unit holders	946	—	—	—	946
Obligations for repayment of collateral received	3,054	158	412	484	4,108
Reinsurance payables	17	—	—	—	17
Payables related to direct insurance contracts	693	66	—	—	759
Accruals and deferred income	174	3	—	—	177
Other payables	325	8	—	317	650
Total	**25,501**	**17,722**	**28,143**	**2,922**	**74,288**

The following table provides a reconciliation of the amounts stated in the table above to the amounts stated in the Group's consolidated balance sheet as at 31 December 2009.

	As at 31 December 2009
	£ million
Total undiscounted liabilities and associated interest as set forth in table above	74,288
Plus / (minus)	
Adjustment for changing valuation of liabilities from an undiscounted valuation to a discounted valuation and for the exclusion of future interest payments	(1,318)
Equivalent liabilities as set forth on the balance sheet	72,970
Other liabilities and capital and reserves included in balance sheet	
Pension scheme deficit	125
Unallocated surplus	721
Provisions	101
Deferred tax	776
Current tax	103
Capital and reserves	1,412
Non-controlling interest	728
Total liabilities and capital and reserves as set forth in balance sheet	**76,936**

The Company purchases derivative financial instruments in connection with the management of its insurance contract and investment contract liabilities based on the principles of reduction of risk and efficient portfolio management. The fair values of the Company's derivative financial instruments were as follows as at 31 December 2009:

	As at 31 December 2009	
	Derivative assets	**Derivative liabilities**
	£ million	*£ million*
Warrants over shares in the Company	—	23
Forward currency	189	181
Credit default options	4	29
Interest rate swaps	1,683	1,430
Swaptions	285	—
Inflation swaps	20	2
Total return bond swaps	27	—
Equity options	191	—
Stock index futures	1,141	1,177
Total	**3,540**	**2,842**

Certain cash collateral on derivatives is available to the Group for investment purposes and is therefore recognised as a financial asset and a liability, recorded as "Obligations for repayment of collateral received" in the statement of consolidated financial position. At 31 December 2009, the amount of collateral recognised as a financial asset and "Obligations for repayment of collateral received" amounted to £1,041 million (2008: £nil) and £1,099 million (2008: £nil) respectively.

Where collateral has been pledged by the Group and the right of set-off is only enforceable on the occurrence of a particular future event then the pledged asset continues to be recognised by the Group. On the same basis the Group does not recognise collateral pledged by counterparties. Off balance sheet derivative collateral at 31 December 2009 which has been pledged to/by the Group amounted to £188 million (2008: £nil) and £455 million (2008: £nil) respectively.

12.5 Commitments

The following table sets forth the Group's non-cancellable operating leases.

	As at 31 December	
	2009	**2008**
	£ million	*£ million*
Not later than one year	11	—
Later than one year and no later than five years	42	—
Later than five years	54	—

The principal operating lease commitments primarily concern office space located at Britannic Court, Glasgow; 301 St. Vincent Street, Glasgow; Juxon House, London; and 16 Harcourt Street, London.

The following table sets forth the Group's commitments.

	As at 31 December	
	2009	2008
	£ million	£ million
To subscribe to private equity funds and other unlisted assets	520	—
To purchase, construct or develop investment property	108	—
For repairs, maintenance or enhancements of investment property	3	—

13 RISK MANAGEMENT

13.1 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. These obligations can relate to both on and off balance sheet assets and liabilities.

There are two principal sources of credit risk for the Group:

- credit risk which results from direct investment activities, including investments in fixed interest securities, equities, derivatives, collective investment vehicles, hedge funds and the placing of cash deposits; and
- credit risk which results indirectly from activities undertaken in the normal course of business. Such activities include premium payments, outsourcing contracts, reinsurance, exposure from material suppliers and the lending of securities.

The amount disclosed in the statement of consolidated financial position in respect of all financial assets, together with rights secured under off-balance sheet collateral arrangements, and excluding those that back unit linked liabilities, represents the Group's maximum exposure to credit risk.

Credit risk is managed by the monitoring of aggregate Group exposures to individual counterparties and by appropriate credit risk diversification. The Group manages the level of credit risk it accepts through divisional credit risk tolerances. In certain cases, protection against exposure to particular credit risk types may be achieved through use of derivatives. The credit risk borne by the shareholder on with profit policies is usually minimal unless the insurance fund is relying on shareholder support.

13.2 Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest risk, currency risk and other price risk.

The Group is mainly exposed to market risk as a result of:

- the mismatch between liability profiles and the related asset investment portfolios;
- the investment of surplus assets including shareholder reserves yet to be distributed, surplus assets within the with profit funds and assets held to meet regulatory capital and solvency requirements; and
- the income flow of management charges from the invested assets of the business.

The Group manages the levels of market risk that it accepts through an approach to investment management that determines:

- the constituents of market risk for the Group;
- the basis used to fair value financial assets and liabilities;
- the asset allocation and portfolio limit structure;
- diversification from benchmarks by type of instrument and geographical area;
- the net exposure limits by each counterparty or group of counterparties, geographical and industry segments;
- control over hedging activities;
- reporting of market risk exposures and activities; and
- monitoring of compliance with market risk policy and review of market risk policy for pertinence to the changing environment.

All operations comply with regulatory requirements relating to the taking of market risk.

(a) Interest risk

Interest risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates due to the effect such movements have on the value of interest-bearing assets and on the value of future guarantees provided under certain contracts of insurance.

Interest risk is managed by matching assets and liabilities where practicable and by entering into swap arrangements where appropriate. This is particularly the case for the non participating funds. For participating business, some element of investment mismatching is permitted where it is consistent with the principles of TCF. The with profit funds of the Group provide capital to allow such mismatching to be effected. In practice, the life companies of the Group maintain an appropriate mix of fixed and variable rate instruments according to the underlying insurance or investment contracts and will review this at regular intervals. This also requires the maturity profile of these assets to be managed in line with the liabilities to policyholders.

The sensitivity analysis for interest risk indicates how changes in the fair value or future cash flows of a financial instrument arising from changes in market interest rates at the reporting date result in a change in profit after tax and in equity. It takes into account the effect of such changes in market interest rates on all assets and liabilities that contribute to the Group's reported profit after tax and equity.

With profit business and non profit business within the with profit funds are exposed to interest risk as guaranteed liabilities are valued relative to market interest rates and investments include fixed interest stocks and derivatives. For with profit business the profit or loss arising from mismatches between such assets and liabilities is largely offset by increased or reduced discretionary policyholder benefits. The contribution of these funds to the Group result is determined primarily by either the shareholders' share of the declared annual bonus or by the shareholders' interest in any change in value in the capital advanced to the Group's with profit funds.

In the non participating funds, policy liabilities are duration matched with primarily fixed interest securities, with the result that sensitivity to changes in interest rates is very low.

An increase of 1 per cent. in interest rates, with all other variables held constant, would result in decreases in the profit after tax in respect of a full financial year and in equity of £61 million (2008: £nil). A decrease of 1 per cent. in interest rates, with all other variables held constant, would result in an additional profit after tax in respect of a full financial year and an increase in equity of £89 million (2008: £nil).

(b) Price risk

The Group's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices other than from interest rate and currency fluctuations. This is due to factors specific to individual instruments, their issuers or factors affecting all instruments traded in the market. Accordingly, the Group limits its exposure to any one counterparty in its investment portfolios and to any one foreign market.

The portfolio of marketable equity securities, and property investments, which is carried in the statement of consolidated financial position at fair value, has exposure to price risk. The Group's objective in holding these assets is to earn higher long-term returns by investing in a diverse portfolio of high quality equities and properties. Portfolio characteristics are analysed regularly and price risks are actively managed in line with investment mandates. The Group's holdings are diversified across industries, and concentrations in any one company or industry are limited.

Equity and property price risk is primarily borne in respect of assets held in with profit or unit linked funds. For unit linked funds this risk is borne by policyholders and asset movements directly impact unit prices and hence policy values. For with profit funds policyholders' future bonuses will be impacted by the investment returns achieved and hence the price risk. In addition some equity investments are held in respect of equity holders' funds. The Group as a whole is exposed to price risk fluctuations impacting the income flow of management charges from the invested assets of all funds.

Equity and property price risk is managed through the agreement and monitoring of financial risk profiles that are appropriate for each of the Group's life funds in respect of maintaining adequate regulatory capital and treating customers fairly. This is largely achieved through asset class diversification.

The impact of non-government fixed interest securities and, inter alia, the change in market credit spreads during the year are fully reflected in the values shown in these financial statements. Similarly, the value of derivatives that the Group holds takes into account fully the changes in swap spreads.

The sensitivity analysis for equity and property price risk illustrates how a change in the fair value of equities and properties affects the Group result. It takes into account the effect of such changes in equity and property prices on all assets and liabilities that contribute to the Group's reported profit after tax and in equity.

A 10 per cent. decrease in equity/property prices, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full financial year and in equity of £17 million (2008: £nil).

A 10 per cent. increase in equity/property prices, with all other variables held constant, would result in an increase in the profit after tax in respect of a full financial year and in equity of £13 million (2008: £nil).

There is also an exposure to spread changes affecting the prices of corporate bonds and derivatives. This exposure applies to with profit funds, unit linked funds, non profit funds (where risks and rewards fall wholly to shareholders) and in shareholders' funds.

A 100 basis point widening of credit spreads, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full financial year and in equity of £196 million (2008: £nil).

A 100 basis point narrowing of credit spreads, with all other variables held constant, would result in an increase in the profit after tax in respect of a full financial year and in equity of £216 million (2008: £nil).

(c) Currency risk

The Group's principal transactions are carried out in sterling and therefore its exchange risk is limited principally to foreign operations.

The Group's foreign operations (taken to be those denominated in non-sterling) generally invest in assets in the same currency denomination as their liabilities, so foreign currency mismatch risk between assets and liabilities is largely mitigated. Consequently, the foreign currency risk from the foreign operations mainly arises when the assets and liabilities denominated in a foreign currency are translated into sterling.

The Group's financial assets are primarily denominated in the same currencies as its insurance and investment liabilities. Thus the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled and, indirectly, from the earnings of UK companies arising abroad.

Certain Phoenix Life with profit funds have an exposure to overseas assets which is not driven by liability considerations. The purpose of this exposure is to reduce overall risk whilst maximising returns by diversification. This exposure is limited and managed through investment mandates which are subject to the oversight of the Investment Committees of the Boards of each life company. Fluctuations in exchange rates from holdings in overseas assets are hedged against currency risks.

Sensitivity of profit after tax and equity to fluctuations in currency exchange rates is not considered significant at 31 December 2009, since unhedged exposure to foreign currency was relatively low.

13.3 Liquidity risk

Liquidity risk is defined as the failure of the Group to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due.

The Group has exposure to liquidity risk as a result of servicing its external debt and equity investors, and from the operating requirements of its subsidiaries. The Group's subsidiaries have exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short term cash-flow requirements.

The Board of Phoenix Group Holdings has defined a number of governance objectives and principles and the liquidity risk frameworks of each subsidiary are designed to ensure that:

- liquidity risk is managed in a manner consistent with the subsidiary companies Boards' strategic objectives, risk appetite and Principles and Practices of Financial Management ("PPFM");
- cash flows are appropriately managed and the reputation of the Group is safeguarded; and
- appropriate information on liquidity risk is available to those making decisions.

The Group's policy is to maintain sufficient liquid assets of suitable credit quality at all times and, where appropriate, to have access to borrowings so as to be able to meet all foreseeable current liabilities as they fall due in a cost-effective manner. Forecasts are prepared regularly to predict required liquidity levels over both the short and medium term allowing management to respond appropriately to changes in circumstances.

Some of the Group's commercial property investments are held through a unit trust managed by Ignis Asset Management. This unit trust has the power to restrict and/or suspend withdrawals, which would, in turn, affect liquidity. To date, the unit trust has continued to process both investments and realisations in a normal manner and has not imposed any restrictions or delays.

14 OFF-BALANCE SHEET ARRANGEMENTS

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

15 CONTINGENT LIABILITIES

In the normal course of business the Group is exposed to certain legal issues, which involve litigation and arbitration, and as at the period end, the Group has a contingent liability in this regard.

London Life Limited provided information to the FSA on its categorisation of working capital to owner funds in 2006. The Directors are confident in this treatment, which is supported by legal and actuarial advice, but note that the FSA have not concluded their review into the matter. A contingent liability of £17 million exists if London Life Limited were required to transfer this working capital back to policyholder funds.

16 CAPITALISATION AND INDEBTEDNESS

The table below sets out the Group's consolidated capitalisation as at 31 December 2009 and as at 31 March 2010 for those categories which are available at that date. This table should be read in conjunction with the Group's consolidated financial statements and the notes thereto included in the Annex.

	As at 31 December 2009	**As at 31 March 2010**
	£ million	*£ million*
Share capital[(1)]	—	—
Share premium[(1)]	859	869
Other reserves[(2)]	257	255
Shares held by employee trust[(3)]	(4)	(4)
Foreign currency translation reserve	93	93
Retained earnings	207	Not available
Total equity attributable to owners of the parent	**1,412**	**Not available**
Perpetual reset capital securities[(4)(5)]	527	533
UK Commercial Property Trust[(6)]	201	Not available
Total equity	**2,140**	**Not available**

(1) Ordinary shares, €0.0001 par value, 300 million authorised; 80.4 million issued and outstanding as at 31 December 2009. "B" ordinary shares, €0.0001 par value, 110 million authorised; 49.8 million issued and outstanding as at 31 December 2009. In January 2010, 2.1 million "B" ordinary shares were issued in exchange for the insider warrants, and 177,000 "B" ordinary shares were issued to Ron Sandler. The impact of these issues is reflected in the position at 31 March 2010. For additional information regarding the Contingent Rights, see Part XI: "Additional Information—Incorporation and Share Capital".

(2) In 2010 the dividend in respect of the 2009 financial year was declared and paid (see "—Dividend Policy" of this Part VIII), and other reserves has therefore been reduced by €22 million post 31 March 2010.

(3) Represents the value of the shares transferred to the PGL Employee Benefit Trust to satisfy awards granted to employees under the Bonus Share Plan and the Long Term Incentive Plan. The number of shares held by the PGL Employee Benefit Trust as at 31 December 2009 was 500,000.

(4) PGH1 has in issue £500 million of Perpetual Capital Reset Securities ('the Notes') which are admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange. The Notes have no fixed maturity and interest payments may be deferred at the option of PGH1; accordingly the Notes meet the definition of equity for reporting purposes.

(5) Following approval of the Tier 1 Bond Proposal on 22 April 2010, the face value of the Perpetual Reset Capital Securities was reduced by 15 per cent. This is not expected to result in a material change to the capitalisation of the Group.

(6) UK Commercial Property Trust Limited ("UKCPT") is a property investment subsidiary which is domiciled in Guernsey and listed on the London Stock Exchange. In February 2010, UKCPT issued new ordinary shares to the value of approximately £150 million of which the Group subscribed for approximately £50 million (see Part XI: "Additional Information—Material Contracts—UKCPT transactions").

Other than those items included in the table as at 31 March 2010 and set out in footnotes (1) to (4) and (6) above, there has been no material change in the Group's capitalisation since 31 December 2009.

Subject to the Amended Contingent Rights Agreements being entered into, the passing of the Resolutions at the AGM and the resolution at the Class Meeting and the adoption of the Fourth Articles of Association (as defined below in "—Memorandum and Articles of Association") (for more information, see Part IV: "Information on the Group—Section A: The Company—Capital Structure"):

- the Company's authorised share capital will be €41,000, divided into 410,000,000 Ordinary Shares of a par value of €0.0001;
- all Class B Shares will be re-designated into Ordinary Shares; and
- immediately prior to Admission, the Company will allot and issue 32,400,000 Ordinary Shares to the holders of the Contingent Rights, as further described in "—Material Contracts—Amended Contingent Rights Agreements".

The table below sets out the Group's consolidated indebtedness as at 31 March 2010. This table should be read in conjunction with the Group's consolidated financial statements and the notes thereto included in the Annex.

	As at 31 March 2010
	£ million
Current debt	
Guaranteed	—
Secured:	
£2,260 million bank loan(1)	22
Unguaranteed / unsecured	
Limited recourse bonds 2012 7.39 per cent.(2)	15
Unsecured loan notes(3)	18
£200 million 7.25 unsecured subordinated loans(4)	1
Total current debt	**56**
Non-current debt (excluding current portion of long-term debt)	
Guaranteed	—
Secured:	
£75 million secured C loan note(5)	70
£425 million bank loan(6)	399
£2,260 million bank loan(1)	2,238
£80 million loan facility(7)	42
Unguaranteed / unsecured:	
Limited recourse bonds 2012 7.39 per cent.(2)	33
Limited recourse bonds 2022 7.59 per cent.(2)	86
£200m 7.25 unsecured subordinated loans(4)	120
Axial Fixed Income A loans(8)	778
Axial Fixed Income B loans(9)	18
Refinancing loan(10)	258
£100 million PIK notes and facility(11)	102
Total non-current debt (excluding current portion of long-term debt)	**4,144**

(1) £2,260 million facility agreement entered into jointly by LC1 and LC2. As at 31 March 2010, £2,260 million capital remained outstanding under this facility. The Tranche A facility of £1,275 million is repayable over the period from 30 April 2011 to 30 November 2014, attracting interest at LIBOR plus a cash margin of 1.00 per cent. and a PIK margin of 1.00 per cent. for the first four years and LIBOR plus a cash margin of 2.5 per cent. for the subsequent years. £22 million of the Tranche A facility was repaid in April 2010. The Tranche B facility of £492.5 million is repayable on 30 November 2015, attracting interest at LIBOR plus a cash margin of 1.25 per cent. and a PIK margin of 0.75 per cent. for the first four years and LIBOR plus a cash margin of 3.25 per cent. for the subsequent years. The Tranche C facility of £492.5 million is repayable on 30 November 2016, attracting interest at LIBOR plus a cash margin of 1.75 per cent. and a PIK margin of 0.25 per cent. for the first four years and LIBOR plus a cash margin of 3.75 per cent. for the subsequent years.

(2) In 1998, National Provident Institution raised £260 million of capital through the securitisation of embedded value on a block of existing unit linked and unitised with profit life and pension policies. On demutualisation of National Provident Institution and pursuant to an insurance business transfer scheme, the obligations in relation to the bonds were assumed by National Provident Life Limited in 1999. The bonds are split between two classes, which rank pari passu. The £140 million 7.39 per cent. class A1 limited recourse bonds have an average life of 2 years maturing in 2012 and the £120 million 7.5873 per cent. limited recourse bonds have an average life of 9 years maturing in 2022. The bonds will be repaid out of surplus emerging from the securitised block of business, and a collateral fund is in place to support this. To do this, National Provident Life Limited has provided collateral of £88 million to provide security to the holders of the recourse bonds in issue.

(3) Unsecured loan notes of £72 million were issued by Impala at par on 14 May 2008 at an interest rate of LIBOR minus 1.00 per cent. per annum with a final maturity date of 2012. As at 31 March 2010, £54 million of these loan notes had been repaid and £18 million were outstanding.

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

(5) This loan note has been issued jointly by LCA and LCB. The loan note is repayable in 2024 and attracts interest at LIBOR plus a margin of 1.00 per cent.

(6) £425 million facility agreement entered into jointly by LCA and LCB. The facility is repayable over the period from 30 June 2011 to 30 June 2016, attracting interest at LIBOR plus a margin of 1.25 per cent. The borrowings under the £425 million facility are secured by first fixed and floating charges over all of the assets and undertakings of LCA and LCB (including their respective 50 per cent. shareholdings in PLHL, all real estate, book debts, bank accounts, investments and other assets).
(7) In 2008, UKCPT entered into an £80 million revolving loan facility agreement with Lloyds TSB. This loan accrues interest at LIBOR plus a variable margin of 0.50 per cent. to 0.70 per cent. per annum. The lender holds a floating charge over certain assets of UKCPT and its subsidiaries. The repayment date for this facility is 19 June 2015.
(8) On 3 June 2008, Axial Fixed Income Opportunities S.a.r.l. issued A loans consisting of €459,886,325; £39,480,573 and US$288,125,702. On 13 June 2008, Axial Fixed Income Opportunities S.a.r.l. issued further A loans of £128,401,000, and, on 11 July 2008, Axial Fixed Income Opportunities S.a.r.l. issued further A loans of US$29,780,400. These loans accrue interest at LIBOR plus 125 bps and mature in May 2016.
(9) On 3 June 2008, Axial Fixed Income Opportunities S.a.r.l. issued B loans consisting of €9,397,311; £3,015,429 and US$4,476,558. These loans accrue a fixed interest rate of 0.10 per cent. plus a variable profit related element and mature in May 2016.
(10) The refinancing loan from Abbey National plc relates to the sale of Extra-Income Plan policies that Abbey National plc finances to the value of the associated property reversions. As part of the arrangement Abbey National plc receives the movement in the Halifax House Price Index and National Provident Life and NPI have undertaken to indemnify Abbey National plc against profits or losses arising from mortality or surrender experience which differs from the basis used to calculate the reversion amount. Repayment will be on a policy-by-policy basis and is expected to occur over the next 10 to 20 years.
(11) On 14 May 2008, MC1 issued PIK notes for the value of £154.5 million to Royal London and MC2 obtained a £154.5 million PIK facility from Royal London. On 2 September 2009, £250 million in aggregate of the PIK notes and the facility outstanding (comprising principal and capitalised interest) was assigned to the Company as part of the acquisition of OPB in exchange for the issue of 1.5 million shares and 12.36 million warrants. The acquired PIK notes and facility were recognised at their fair value. Interest accrues on the PIK notes and facility at LIBOR plus a margin of 2 per cent. unless an election is made by MC1 or MC2 to capitalise the interest, in which case the margin increases to 3.5 per cent. In December 2009, interest of £2.3 million was capitalised on the PIK notes and facility. The final maturity date on the PIK notes and facility is 30 June 2019.

17 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Group's business that typically require such estimates are insurance and investment contract liabilities, determination of the fair value of financial assets and liabilities, impairment tests for intangible assets, income taxes and pension benefit assets and liabilities.

17.1 Insurance contracts and investment contracts with DPF

Under current IFRS requirements, insurance contracts and investment contracts with DPF are measured using accounting policies consistent with those adopted under UK GAAP.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

(a) Insurance liabilities

The insurance contract liability for non participating non linked business is calculated initially to comply with the requirements of the Prudential Sourcebook for Insurers issued by the FSA, the UK Regulator. The liability for insurance contracts for business in the non profit fund is adjusted where necessary by removing excessively prudent margins required for statutory solvency purposes together with general contingency reserves and those reserves required only under the Prudential Sourcebook for Insurers.

Insurance contract liabilities for non participating business are calculated using either a net premium or gross premium method. Where a gross premium method is used, the liability includes allowance for prudent lapses. Negative policy values are allowed for individual policies:

- where there are no guaranteed surrender values; or
- in the periods where guaranteed surrender values do not apply even though guaranteed surrender values are applicable after a specified period of time.

The principal assumptions are given in note 42 of the Phoenix Financial Information.

For participating business, the Group follows the provisions of the UK Accounting Standard Board's FRS 27 *Life Assurance*. In accordance with these requirements, the liabilities under insurance contracts and investment contracts with DPF are calculated on the FSA's realistic basis. The key aspects of this methodology are:

- liabilities to policyholders arising from with profit life assurance business are stated at the amount of the realistic value of the liabilities, adjusted to exclude the owners' share of projected future bonuses;
- acquisition costs are not deferred; and
- reinsurance recoveries are measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

The principal assumptions are given in note 42 of the Phoenix Financial Information.

(b) Liability adequacy

At each reporting date, liability adequacy tests are performed to assess whether the insurance contract and investment contract with DPF liabilities are adequate. Current best estimates of future cash flows are compared to the carrying value of the liabilities. Any deficiency is immediately charged to the consolidated income statement.

The Group's accounting policies for insurance contracts meet the minimum specified requirements for liability adequacy testing under IFRS 4, as they allow for current estimates of all contractual cash flows and of related cash flows such as claims handling costs. Cash flows resulting from embedded options and guarantees are also allowed for, with any deficiency being recognised in the consolidated income statement.

17.2 Investment contracts without DPF

The valuation of liabilities on unit linked contracts is based on the fair value of the related assets and liabilities. The financial liability is measured based on the carrying value of the assets and liabilities that are held to back the contract. The liability is the sum of the unit linked liabilities plus an additional amount to cover the present value of the excess of future policy costs over future charges.

17.3 Fair value for financial assets and liabilities

Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities, without any deduction for transaction costs. These are categorised as Level 1 financial instruments and do not involve estimates. If prices are not readily determinable, fair value is determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes. Financial instruments valued where valuation techniques are based on observable market data at the period end are categorised as Level 2 financial instruments. Financial instruments valued where valuation techniques are based on non-observable inputs are categorised as Level 3 financial instruments. Level 2 and Level 3 financial instruments therefore involve the use of estimates.

(a) Fair value estimation

Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. For units in unit trusts and shares in open-ended investment companies, fair value is by reference to published bid-values. The fair value of receivables and floating rate and overnight deposits with credit institutions is their carrying value. The fair value of fixed-interest bearing deposits is estimated using discounted cash flow techniques.

17.4 Intangible assets

Intangible assets are subject to regular impairment reviews as required. Impairments are measured at the difference between the carrying value of a particular asset and its recoverable amount. Impairments are recognised in the consolidated income statement in the period in which they occur. The Group's principal intangible asset is acquired in-force business.

(a) Acquired in-force business

Insurance and investment contracts with and without DPF acquired in business combinations and portfolio transfers are measured at fair value at the time of acquisition. The difference between the fair value of the contractual rights acquired and obligations assumed and the liability measured in accordance with the Group's accounting polices for such contracts is recorded as acquired in-force business.

Acquired in-force business is amortised over the estimated life of the contracts on a basis, which recognises the emergence of the economic benefits.

An impairment review is performed whenever there is an indication of impairment. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the consolidated income statement. Acquired in-force business is also considered in the liability adequacy test for each reporting period.

17.5 Deferred tax

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets. Any judgements made, and uncertainties considered, in arriving at deferred tax balances in the financial statements are discussed in note 28 to the Phoenix Financial Information.

17.6 Pensions benefit assets and liabilities

The valuation of pension benefit assets and liabilities is determined using actuarial valuations, which involves making assumptions about discount rates, expected return rates on assets, future salary increases, mortality rates and future pension increases. As defined benefit pension plans are long-term in nature, such assumptions are subject to significant uncertainty. Details of the key assumptions used are shown in note 32 of the Phoenix Financial Information.

PART IX: FINANCIAL INFORMATION AND INFORMATION INCORPORATED BY REFERENCE

SECTION A: SELECTED FINANCIAL INFORMATION

Set out below is the following selected audited financial information:

- Selected consolidated financial information for the Group, which consolidates the results of OPB (which includes Resolution) for the period from 28 August 2009 to 31 December 2009;
- Selected combined financial information for OPB, which includes Resolution from 1 May to 31 December 2008; and
- Selected consolidated financial information for Resolution Group, which includes (i) the On Sold Resolution Assets for the financial statements covering the time period from 1 January 2007 to the date of disposal and (ii) the overlap with the OPB financial statements for the period from 1 May to 31 December 2008.

The following financial data has been extracted without material adjustment from, and should be read together with, the audited financial statements of the Group, OPB and Resolution which are included in the Annex. The selected audited financial information below should also be read together with the information included in this document and Part VIII: "Operating and Financial Review". Shareholders are advised to read the whole of this document and not rely solely on the information summarised in this Part IX: "Financial Information and Information Incorporated by Reference—Section A: Selected Financial Information".

1 SELECTED FINANCIAL INFORMATION FOR THE GROUP

The table below sets forth the Group's consolidated results of operations for the year ended 31 December 2009 and the period from 2 January to 31 December 2008.

	Year ended 31 December 2009[(1)]	**Restated period 31 December 2008**[(2)]
	£ million	*£ million*
Gross premiums written	545	—
Less: Premiums ceded to reinsurers	(31)	—
Net premiums written	**514**	—
Fees	101	—
Net investment income	1,032	33
Total revenue, net of reinsurance payable	**1,647**	**33**
Other operating income	67	—
Net income	**1,714**	**33**
Net policyholder claims and benefits incurred	(834)	—
Total operating expenses	**(1,536)**	**(2)**
Profit before finance costs and tax	**178**	**31**
Finance costs	(87)	—
Profit for the year before tax	**91**	**31**
Tax attributable to policyholders' returns	60	—
Profit before the tax attributable to owners	**151**	**31**
Tax attributable to owners	(16)	—
Profit for the year attributable to owners	**135**	**31**
Attributable to:		
Owners of the parent	95	31
Non-controlling interests	40	—
	135	31

(1) The consolidated income statement for the year ended 31 December 2009 incorporates the results of OPB for the four-month post-acquisition period only.

(2) The Group's consolidated income statement for the period from 2 January to 31 December 2008 was restated, following a review of certain agreements relating to the Company's initial public offering, to classify the Founders' warrants as financial liabilities instead of equity instruments. In addition, the shares issued by the Company in its initial public offering that were originally classified by the Company as a financial liability, "ordinary shares subject to possible redemption", were reclassified as equity as it was considered that the obligation to give the holders of these Shares cash in exchange for their Shares, had they declined to be involved in an acquisition proposed by the Company, could have been avoided.

The table below sets forth the Group's statement of consolidated financial position as at 31 December 2009 and 31 December 2008.

	2009	Restated 2008[1]
	£ million	*£ million*
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	—	—
Share premium	859	401
Other reserves	257	6
Shares held by employee trust	(4)	—
Foreign currency translation reserve	93	133
Retained earnings	207	33
Total equity attributable to owners of the parent	**1,412**	**573**
Non-controlling interests	728	—
Total equity	**2,140**	**573**
Liabilities		
Pension scheme deficit	125	—
Insurance contract liabilities	51,012	—
Financial liabilities	21,076	11
Provisions	101	—
Deferred tax	776	—
Reinsurance payables	17	—
Payables related to direct insurance contracts	759	—
Current tax	103	—
Accruals and deferred income	177	9
Other payables	650	—
Total liabilities	**74,796**	**20**
Total equity and liabilities	**76,936**	**593**

	2009	Restated 2008
	£ million	*£ million*
ASSETS		
Intangible assets	2,713	—
Property, plant and equipment	34	—
Investment property	1,915	—
Financial assets	61,524	—
Deferred tax assets	81	—
Insurance assets	3,141	—
Current tax	44	—
Prepayments and accrued income	622	—
Other receivables	781	—
Cash and cash equivalents	6,081	2
Amounts in trust	—	591
Total assets	**76,936**	**593**

(1) The Group's consolidated financial position as at 31 December 2008 was restated, following a review of certain agreements relating to the Company's initial public offering, to classify the Founders' warrants as financial liabilities instead of equity instruments. In addition, the shares issued by the Company in its initial public offering that were originally classified by the Company as a financial liability, ''ordinary shares subject to possible redemption'', were reclassified as equity as it was considered that the obligation to give the holders of these Shares cash in exchange for their Shares, had they declined to be involved in an acquisition proposed by the Company, could have been avoided. All share premium arising on the issue of share capital in 2008 (net of share issue costs) was reclassified from other reserves to share premium.

2 SELECTED FINANCIAL INFORMATION FOR OPB

The table below sets forth OPB's combined results of operations for the years ended 31 December 2009, 2008 and 2007.

	Year ended 31 December		
	2009	**2008[(1)]**	**2007**
	£ million	*£ million*	*£ million*
Gross premiums written	1,666	1,330	491
Less: premiums ceded to reinsurers	(71)	(76)	(4)
Net premiums written	**1,595**	**1,254**	**487**
Fees	200	180	57
Net investment income	4,555	(2,668)	1,120
Total revenue, net of reinsurance payable	**6,350**	**(1,234)**	**1,664**
Other operating income	132	74	8
Net income	**6,482**	**(1,160)**	**1,672**
Net policyholder claims and benefits incurred	(3,679)	(136)	(1,159)
Change in investment contract liabilities	(1,238)	1,747	(285)
Impairment of acquired in-force business	—	(408)	—
Total administrative expenses[(2)]	(738)	(722)	(137)
Net (income) / expense attributable to unit holders	(29)	140	—
Other operating expenses[(3)]	(123)	(150)	(13)
Profit / (loss) before finance costs and tax	**675**	**(689)**	**78**
Finance costs	(499)	(683)	(244)
Profit / (loss) for the year before tax	**176**	**(1,372)**	**(166)**
Owners' tax	48	333	(42)
Policyholder tax	—	106	71
Tax credit	48	439	29
Profit / (loss) for the year	**224**	**(933)**	**(137)**
Attributable to:			
Owners of the parent	177	(920)	(137)
Non-controlling interests	47	(13)	—
	224	**(933)**	**(137)**

(1) OPB's combined results of operations for the year ended 31 December 2008 consolidate the Resolution Group's results of operations (excluding the On-Sold Resolution Assets) from 1 May 2008.

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

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

The table below sets forth OPB's statement of combined financial position as at 31 December 2009, 31 December 2008 and 31 December 2007.

	2009	2008	2007
	£ million	*£ million*	*£ million*
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	265	193	51
Capital contribution	436	—	—
Foreign currency translation reserve	10	17	—
Available for sale reserve	—	—	(2)
Retained earnings	(549)	(570)	520
Total equity attributable to owners of the parent	**162**	**(360)**	**569**
Non-controlling interests	728	652	—
Total equity	**890**	**292**	**569**
Liabilities			
Pension scheme deficit	125	141	—
Insurance contract liabilities	51,012	53,200	19,269
Financial liabilities	21,659	23,809	9,161
Provisions	101	139	76
Deferred tax	464	602	58
Reinsurance payables	17	22	—
Payables related to direct insurance contracts	759	731	165
Current tax	103	126	78
Accruals and deferred income	176	233	52
Other payables	760	733	1,264
Total liabilities	**75,176**	**79,736**	**30,123**
Total equity and liabilities	**76,066**	**80,028**	**30,692**

	2009	2008	2007
	£ million	*£ million*	*£ million*
ASSETS			
Pension scheme surplus	—	135	81
Intangible assets	1,807	1,917	76
Property, plant and equipment	34	35	4
Investment property	1,915	1,986	460
Financial assets	61,552	63,942	27,617
Deferred tax assets	81	110	1
Insurance assets	3,141	3,057	39
Current tax	44	135	—
Deferred acquisition costs	13	17	21
Prepayments and accrued income	622	703	274
Other receivables	781	416	96
Cash and cash equivalents	6,076	7,575	2,023
Total assets	**76,066**	**80,028**	**30,692**

3 SELECTED FINANCIAL INFORMATION FOR THE RESOLUTION GROUP

The table below sets forth the Resolution Group's consolidated results of operations for the years ended 31 December 2008 and 31 December 2007.

	Year ended 31 December	
	2008[(1)]	2007
	£ million	*£ million*
Gross premiums written	1,677	2,104
Less: premiums ceded to reinsurers	(186)	(330)
Net premiums written	**1,491**	**1,774**
Fees and commissions	171	150
Net investment income	(2,174)	2,365
Total revenue, net of reinsurance payable	**(512)**	**4,289**
Other operating income	71	9
Net income	**(441)**	**4,298**
Net policyholder claims and benefits incurred	(107)	(2,663)
Change in investment contract liabilities	1,373	(384)
Acquisition costs	(82)	(112)
Amortisation of acquired in-force business	(168)	(228)
Administrative expenses	(648)	(594)
Net expense / (income) attributable to unit holders	147	(99)
Other operating expenses	(29)	(89)
Profit before finance costs	**45**	**129**
Finance costs	(127)	(125)
(Loss) / profit for the year before other items	**(82)**	**4**
Gain on disposal of business to Royal London	280	—
Loss on disposal of subsidiaries	(372)	—
(Loss) / profit for the year before taxes	**(174)**	**4**
Tax (charge) / credit	(6)	132
(Loss) / profit for the year attributable to owners	**(180)**	**136**
Attributable to:		
Owners of the parent		
Ordinary shareholders	(180)	116
Perpetual reset capital securities	33	33
	(147)	**149**
Non-controlling interests	(33)	(13)
	(180)	**136**

(1) The results for the year ended 31 December 2008 have been classified as discontinued operations as all subsidiary operations were sold during the year. The continuing results of the parent entity are not material in the context of the total results.

The table below sets forth the Resolution Group's consolidated financial position as at 31 December 2008 and 31 December 2007.

	2008	2007
	£ million	*£ million*
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	34	34
Share premium	1,541	1,537
Perpetual reset capital securities	497	497
Share option reserve	—	6
Foreign currency translation reserve	—	7
Merger reserve	—	1,043
Retained earnings	1,274	1,283
Total equity attributable to owners of the parent	**3,346**	**4,407**
Non-controlling interests	—	192
Total equity	**3,346**	**4,599**
Liabilities		
Insurance contract liabilities	—	43,847
Financial liabilities	72	10,440
Provisions	—	69
Deferred tax	6	857
Reinsurance payables	—	67
Payables related to direct insurance contracts	—	431
Deferred income	—	68
Current tax	7	130
Accruals	—	145
Trade and other payables	4	501
Total liabilities	**89**	**56,555**
Total equity and liabilities	**3,435**	**61,154**

	2008	2007
	£ million	*£ million*
ASSETS		
Pension scheme surplus	50	20
Loans to parent and group undertakings	3,186	—
Intangible assets	—	2,215
Property, plant and equipment	—	39
Investment property	—	2,410
Financial assets	71	46,958
Insurance assets	—	3,370
Current tax	—	157
Prepayments	—	524
Amounts owed by group undertakings	125	—
Trade and other receivables	3	444
Cash and cash equivalents	—	5,005
Asset held for sale	—	12
Total assets	**3,435**	**61,154**

SECTION B: INFORMATION INCORPORATED BY REFERENCE

The financial information of Liberty Acquisition Holdings (International) Company, as it was then known, for the financial year ended 31 December 2008, prepared in accordance with IFRS as adopted for use in the EU under Dutch law, together with the independent audit report thereon contained on pages 3 to 26 of the Group's Annual Report and Accounts for the period ended 31 December 2008 is incorporated by reference into this document and is available for inspection in accordance with Part XI: ''Additional Information—Documents Available for Inspection''. This financial information is also available on the Company's website at www.thephoenixgroup.com. This financial information has been included pursuant to the requirements of EC Regulation 809/2004 of 29 April 2004 and investors should note that this financial information has subsequently been restated, and that the restated financial information should be reviewed together with the unrestated financial information and that the restated financial information is included in this prospectus in the Annex on pages F-2 – F-89.

PART X: DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

SECTION A: DIRECTORS

1 POSITIONS

The Directors of the Board are as follows as at the date of this Prospectus:

Name	Position
Ron Sandler	Chairman, Non-Executive Director and Nomination Committee Chairman
Jonathan Moss	Group Chief Executive Officer
Simon Smith	Group Finance Director
Alastair Lyons	Senior Independent Non-Executive Director and Audit Committee Chairman
Ian Ashken	Non-Executive Director
René-Pierre Azria	Non-Executive Director
David Barnes	Independent Non-Executive Director
Charles Clarke	Independent Non-Executive Director
Ian Cormack	Independent Non-Executive Director and Remuneration Committee Chairman
Tom Cross Brown	Independent Non-Executive Director
Manjit Dale	Non-Executive Director
Isabel Hudson	Independent Non-Executive Director
Hugh Osmond	Non-Executive Director
David Woods	Independent Non-Executive Director and Risk Committee Chairman

The business address of each of the Directors is 1st Floor, 32 Commercial Street, St. Helier, Jersey JE2 3RU, Channel Islands.

It was announced on 4 May 2010 that Jonathan Yates would succeed Simon Smith as Group Finance Director. It is anticipated that Mr Yates will join the Board on 23 June 2010 and that Mr Smith will resign as a Director at that time and leave the employment of the Group on 3 October 2010.

2 BIOGRAPHIES OF THE DIRECTORS AND JONATHAN YATES

Ron Sandler, CBE

Chairman and Non-Executive Director

Ron Sandler was appointed Chairman and Non-Executive Director of the Company on 24 September 2009. He is also Chairman of Northern Rock plc, Paternoster Ltd and Ironshore Inc, and is an adviser to Palamon Capital Partners. Mr Sandler was previously Chief Executive of Lloyd's of London and Chief Operating Officer of NatWest Group. In 2002, at the request of the Chancellor of the Exchequer, he led an independent review of the UK Long Term Savings Industry. He is a recent past president of the Chartered Institute of Bankers. Mr Sandler is Chairman of the Nomination Committee of the Board.

Jonathan Moss

Group Chief Executive

Jonathan Moss has been Group Chief Executive of OPB since 2006. He was previously Finance Director of OPB from 2003, and before that the Chief Actuary of AMP UK and AMP Life in Australia. Mr Moss has also previously been the Appointed Actuary of London Life and National Provident Life. Mr Moss has 26 years' experience in the insurance industry and was appointed to the Board on 2 September 2009.

Simon Smith

Group Finance Director

Simon Smith became Finance Director of OPB in 2006, having joined in 2005 following the acquisition of the Pearl Life Companies and their affiliates from HHG plc. He is a Chartered Accountant with 18 years' experience in the fund management and life insurance sectors, initially in tax management and structuring. Mr Smith was appointed to the Board on 2 September 2009. It was announced on 4 May 2010 that Mr Smith would be stepping down as Group Finance Director. He will cease to be a Director of the Company on 23 June 2010.

Jonathan Yates

Group Finance Director – Designate

Jonathan Yates, a qualified actuary, was Chief Executive of Life Assurance Holding Corporation Limited ("LAHC") and its subsidiary Windsor Life from 2004 to 2009, having been Finance Director from 2002 to 2004. Whilst leading LAHC he successfully completed eight major transactions including the sale of the business to Swiss Re in 2004 and the £750 million acquisition of Barclays Life in 2008. Mr Yates has 27 years' experience in the insurance industry. It is anticipated that Mr Yates will be appointed to the Board on 23 June 2010.

Alastair Lyons, CBE

Senior Independent Non-Executive Director and Audit Committee Chairman

Alastair Lyons was appointed to the Board as Senior Independent Non-Executive Director on 29 March 2010. He is also Chairman of Admiral Group plc, the FTSE-100 direct motor insurer, Chairman of Serco Group plc, the FTSE-100 international services company, and Deputy Chairman of Bovis Homes Group plc. He is additionally Chairman of Cardsave Group Limited and Legal Marketing Services Limited. In his executive career he was Director of Corporate Projects at National Westminster Bank plc, Chief Executive Officer of the National Provident Institution, executive director of Abbey National, responsible for the insurance division, and Chief Executive Officer of the National Provincial Building Society. He is a fellow of the Institute of Chartered Accountants and has been a non-executive director of both the Department for Work and Pensions and the Department for Transport. Mr Lyons is Chairman of the Audit Committee of the Board.

Ian Ashken

Non-Executive Director

Ian Ashken is Vice Chairman and Chief Financial Officer of Jarden Corporation, a Fortune 500 US diversified consumer products company listed on the New York Stock Exchange. Mr Ashken has had extensive public company experience over the last 20 years, including as Chief Financial Officer of Benson Eyecare Corporation, Lumen Technologies and Bollé Inc. Mr Ashken currently serves as an independent director and head of the audit committee of GLG Partners, Inc. Mr Ashken is also a Principal and Executive Officer of a number of private investment entities. Mr Ashken was appointed to the Board on 2 September 2009.

René-Pierre Azria

Non-Executive Director

René-Pierre Azria is President and Chief Executive Officer of Tegris Advisors LLC, a US private advisory firm specialising in strategic financial analysis and mergers and acquisitions. Prior to founding Tegris, Mr Azria was a worldwide partner with Rothschild Inc. Prior to joining Rothschild in 1996, Mr Azria served as Managing Director of Blackstone Indosuez and President of Financière Indosuez Inc. in New York. Mr Azria serves as a director and compensation committee member of Jarden Corporation, a NYSE listed Fortune 500 US diversified consumer products company, and of two privately-held book publishers in France and the US. Mr Azria was appointed to the Board on 2 September 2009 and is a member of the Risk Committee of the Board.

David Barnes

Independent Non-Executive Director

David Barnes joined the RBS Group (then Williams & Glyn's Bank) in 1973 and remained there in various roles until his early retirement in February 2009. His roles included Relationship Banker in the then newly-established Corporate Division, Head of the Financial Institutions Relationship Management team and member and subsequently Chairman of RBS's Credit Committee. From 2005 he was responsible for all lending to financial institutions and for Capital Management for RBS's Financial Institutions Group. Mr Barnes was appointed to the Board on 2 September 2009 and is a member of the Audit and Remuneration Committees of the Board.

Charles Clarke

Independent Non-Executive Director

Charles Clarke is a Jersey-resident Chartered Accountant who spent some 30 years with KPMG. Having trained and qualified in London he was a financial sector audit partner in London and Jersey and a principal in Kuala Lumpur. He was also senior partner of the KPMG Channel Islands operation for seven years and, during his final year, Chairman of the grouping of KPMG member firms in offshore jurisdictions. Since retiring from KPMG at the end of 2005 he has established an offshore governance consultancy and non-executive director recruitment service as well as accepting a number of non-executive director and community appointments. Mr Clarke was appointed to the Board on 18 February 2010 and is a member of the Audit Committee of the Board.

Ian Cormack

Independent Non-Executive Director and Remuneration Committee Chairman

Ian Cormack is a non-executive director of Aspen Insurance Holdings, the Qatar Financial Centre Authority and the Qatar Insurance Service. Mr Cormack was Chief Executive Officer of Insurance, Financial Services and Asset Managements of AIG, Inc. in Europe from 2000 to 2002 and was Chairman of Citibank International plc and co-head of the Global Financial Institutions Client Group at Citigroup. Mr Cormack served on the board of directors of the former Pearl Group Limited from May 2005 to September 2009. He was appointed to the Board on 2 September 2009. Mr Cormack is Chairman of the Remuneration Committee and a member of the Nomination Committee of the Board.

Tom Cross Brown

Independent Non-Executive Director

Tom Cross Brown was Global Chief Executive of ABN AMRO Asset Management (which managed some €160 billion, with offices in 30 countries around the world) from 2000 to 2003, as well as Chairman of ABN AMRO Asset Management in the UK from 1997 to 2003. Prior to this, he was Chief Executive Officer of Lazard Brothers Asset Management in London, part of the Lazard group, where he spent a total of 21 years. Mr Cross Brown is non-executive Chairman of Just Retirement (Holdings) Limited, a non-executive director of Bluebay Asset Management PLC and Artemis Alpha Trust PLC as well as of other private companies and charities. Mr Cross Brown served on the board of directors of the former Pearl Group Limited from May 2005 until September 2009. Mr Cross Brown was appointed to the Board on 24 September 2009 and is a member of the Nomination and Risk Committees of the Board.

Manjit Dale

Non-Executive Director

Manjit Dale is a founding partner of TDR Capital, a private equity firm established in 2002. TDR Capital manages over €2.5 billion of assets on behalf of a variety of institutional pension funds, university endowments and wealthy private individuals. Prior to founding TDR Capital, Mr Dale was Managing Partner at Deutsche Bank Capital Partners Europe. He has, amongst others, served on the boards of directors of Pizza Express and Center Parcs. Mr Dale has over 20 years' experience in private equity, finance and consulting gained with Bankers Trust, 3i plc, NM Rothschild and Andersen Consulting. He served on the board of directors of the former Pearl Group Limited from December 2004 to September 2009. Mr Dale was appointed to the Board on 2 September 2009.

Isabel Hudson

Independent Non-Executive Director

Isabel Hudson is a former executive director of Prudential Assurance Company Limited. She was also Chief Financial Officer at Eureko BV. Ms Hudson is an independent non-executive director of QBE Insurance Group Limited and The Pensions Regulator and a member of the with profit committee of Standard Life. Ms Hudson is Chairman of the business development board of Scope, a UK charity, and has 29 years' experience in the insurance industry in the UK and mainland Europe. She was appointed to the Board on 18 February 2010 and is a member of the Risk and Remuneration Committees of the Board.

Hugh Osmond

Non-Executive Director

Hugh Osmond is a principal of Sun Capital Partners. Mr Osmond founded Punch Group and was its Executive Chairman between 1997 and 2001, during which time he built Punch Group into one of the UK's largest pub companies. He previously co-led the acquisition and market listing of Pizza Express in 1993 and helped build it into the UK's largest sit-down restaurant chain. Mr Osmond served on the board of directors of the former Pearl Group Limited from December 2004 until September 2009. Mr Osmond also serves on the board of directors of Horizon plc. Mr Osmond was appointed to the Board on 2 September 2009 and is a member of the Risk Committee of the Board.

David Woods

Independent Non-Executive Director and Risk Committee Chairman

David Woods was appointed non-executive Chairman of Royal Liver Assurance in February 2003 and director of Standard Life UK Smaller Companies Trust PLC in May 2005. He is a non-executive director of Murray Income Trust plc and of The Moller Centre for Continuing Education. He is also Chairman of the Pension Fund Trustees for all the UK companies in the Steria Group and a trustee of the Scottish Provident Pension Fund. Between 1988 and 2002, he was Group Managing Director of the Scottish Provident Group. Mr Woods was appointed to the Board on 18 February 2010 and is Chairman of the Risk Committee of the Board.

3 OTHER DIRECTORSHIPS/PARTNERSHIPS

In respect of each Director and Jonathan Yates, details are set out below of the companies and partnerships (not including any member of the Group) of which such Director or Jonathan Yates has been a member of the administrative, management or supervisory bodies or partner at any time in the five years before the date of this Prospectus:

Name	Current	Previous
Ron Sandler	Paternoster Ltd Paternoster UK Limited Ironshore Inc Ironshore International Limited Northern Rock plc	Computacenter PLC Computacenter (UK) Limited The Kyte Group Limited Kyte Capital Management Limited Oxygen Holdings PLC Fortis Group Herbert Smith LLP Sandler Rentoul Associates Limited (1 June 2007)[5] Personal Finance Education Group Northern Rock (Asset Management) PLC OIM Underwriting Limited Oxygen Insurance Brokers Limited Oxygen Insurance Services Limited
Jonathan Moss	None	Aldgate Trustees Limited Basil Investments Limited Pearlinvest Limited
Simon Smith	Axial Investment Management Ireland Limited Axial Short Term Multi Asset Funds plc Axial Systematic Strategies Funds plc Martineau (GP) Limited Martineau Galleries (GP) Limited Martineau Galleries No.1 Limited Martineau Galleries No.2 Limited Martineau No.1 Limited Martineau No.2 Limited Moor House General Partner Limited Moor House Nominees No.1 Jersey Limited Moor House Nominees No.2 Jersey Limited Moor House Nominees No.3 Jersey Limited Mutual Securitisation plc	CSC Computer Sciences (Middle East) Limited GMHGP Limited MHGPSUB1 Limited Moor House General Partner No.1 Limited Moor House Management Services Limited New London Properties Limited NPI Holdings Limited NPI Payments Limited St Helen's Trust Limited

Name	Current	Previous
	Tesco Property Partner (GP) Limited	
Jonathan Yates	None	Admin Re UK Limited Alac (UK) Ltd Barclays Life Assurance Company Limited BLAC Limited C Financial Management Limited C Life Assurance Company Limited C Life Pensions Limited CLPT Limited F.P.S. (Holdings) Limited G Assurance & Pension Services Ltd G Financial Services Limited G Life H Limited G Management Services Limited G Trustees Ltd GL & P Limited LV Equity Release Limited LV Life Services Limited Namulas Pension Trustees Limited National Mutual Life Assurance Society NM Insurance Holdings Limited NM Life Group Limited NM Life Limited NM Life Residential Limited NM Life Trustees Limited NM Pensions Limited NM Pensions Trustees Limited RAFS Limited Reassurance UK Life Assurance Company Limited RFSG(UK) Limited SRNY Limited Swiss Re Life & Health Limited Targetchief Limited The Gresham Life Assurance Society Limited Windsor Life Assurance Company Limited XSMA Limited
Alastair Lyons	Admiral Group plc Bovis Homes Group plc Cardsave Group Limited Equity Release Topco Limited Legal Marketing Services Limited LMS Group Holdings Limited LMS Holdings Limited Partners For Finance Limited PFF Finance Limited Topco No.3 Limited Serco Group plc	Admiral Insurance Company Limited Buy As You View Holdings Limited Buy As You View Limited Capita Hartshead Solutions Limited Coinmechs Limited Dunraven Developments Limited Dunraven Finance Limited Equity Release Services Limited (24 July 2009)[1] HCML Topco Limited Health & Case Management Limited In Retirement Holdings Limited (24 July 2009)[1] In Retirement Services (Products) Limited[2] In Retirement Services (Reversions) Limited (24 July 2009)[1] Independent Retirement Solutions Limited Just Rentals Limited

Name	Current	Previous
		Malachite 1 EBT Limited (23 March 2010)[4] Malachite 1 Limited (16 October 2009)[4] Malachite 2 Limited (18 October 2009)[4] Malachite 3 Limited (18 October 2009)[4] PFF Topco Limited (4 February 2010)[5]
Ian Ashken	GLG Partners, Inc. Jarden Corporation American Household, Inc. Australian Coleman, Inc. Beacon Exports, Inc. Bicycle Holding, Inc. BRK Brands, Inc. CC Outlet, Inc. Coleman Argentina, Inc. Coleman Country, Ltd. Coleman Venture Capital, Inc. Coleman Worldwide Corporation First Alert, Inc. Holmes Motor Corporation JCS Wellness Solutions, Inc. K-2 Corporation K2 Inc. K-2 International, Inc. Kansas Acquisition Corp. L.A. Services, Inc. Laser Acquisition Corp. Marker Volkl USA, Inc. Nippon Coleman, Inc. Outdoor Technologies Corporation Packs & Travel Corporation Penn Fishing Tackle Mfg. Co. Pure Fishing Sevenstrand, Inc. Pure Fishing, Inc. Rawlings Sporting Goods Company, Inc. Ride Manufacturing, Inc. SI II, Inc. Sitca Corporation Stuhlbarg International Sales Company, Inc. Sunbeam Products, Inc. The Coleman Company, Inc. The United States Playing Card Company THL-FA IP Corp. Tri-E Corporation USPC Holding, Inc. Michael Ashken Trust	Jarden Plastic Solutions Limited BRK Brands Europe Limited Alltrista Newco Corporation Alltrista Plastics Corporation American Firelog Corporation American Firelog Corporation of California American Firelog Corporation of Ohio American Texas Firelog Corporation Bernardin Ltd. Canadian Playing Card Company, Limited Carolina Firelog Corporation Coleman Asia Limited Desarrollo Industrial Fitec, S. de R.L. de C.V. Dicon Global Inc. Dicon Safety Products (Europe) Limited Earth Products Inc. Electronica BRK DE Mexico, S.A. de C.V. Esteem Industries Limited First Alert/Powermate, Inc. Fishing Spirit, Inc. Holmes Products (Europe) Limited Holmes Products (Far East) Limited International Playing Card Company Limited Jarden Acquisition I, Inc. Jarden Consumer Solutions Community Fund, Inc. Jarden Direct, Inc. Jarden Zinc Products, Inc. K2 Licensed Products, Inc. K2 Merchandising, Inc. K2 Properties, Inc. K2 Snowshoes, Inc. Lehigh Consumer Products Corporation Loew-Cornell, Inc. O.W.D., Incorporated Oster de Venezuela, S.A. Pine Mountain Corporation Pure Fishing Spain, Inc. Raider Motor Corporation Rival Consumer Sales Corporation Rival de Mexico, S.A. de C.V. Sea Striker, Inc. Shakespeare Industries, Inc. SMCA, Inc. Sports Merchandising Company Sports Recreation Company Ltd. Stearns Inc. Sunbeam Americas Holdings, Limited

Name	Current	Previous
		Sunbeam Corporation (Canada) Limited Sunbeam International (Asia) Limited SunCan Holding Corp. The Holmes Group Canada ULC Tilia, Inc. Tilia International, Inc. Tupper Lake Plastics, Incorporated Wallingford Insurance Company Limited
René-Pierre Azria	Jarden Corporation La Martiniere Groupe Abrams Inc. Tegris Advisors LLC	None
David Barnes	None	None
Charles Clarke	SG Hambros Bank Limited SG Hambros Bank (Channel Islands) Limited SG Hambros Trust Company (Channel Islands) Limited Thomas & Dessain Limited Carpe Diem (APRP) Limited	KPMG Channel Islands KPMG Channel Islands Limited KPMG Properties Limited (formerly KPMG Tax Advisors Limited) KPMG Corporate Finance (CI) Limited (formerly Edgefield (Funding) Limited) Edgefield Properties Limited
Ian Cormack	African Carbon Reductions Limited Aspen Insurance Holdings Aspen Insurance UK Limited Carbon Efficient Energy Limited Carbon Reductions Limited Entertaining Finance Limited Gulf Carbon Reductions Limited Maven Income & Growth VCT 4 PLC National Angels Limited Qatar Financial Centre Qatar Insurance Service	Europe Arab Bank PLC Cormack Tansey Partners
Tom Cross Brown	Heathfield School Islip Consulting Limited The Heathfield St Mary's Foundation Alpha Securities Trading Limited Artemis Alpha Trust PLC Just Retirement (Holdings) Limited Bluebay Asset Management PLC	Bank of America Trustees Limited Artemis Investment Management Limited Bank of America (GSS) Limited Quintain Estates and Development PLC Quintain Services Limited Lasalle GSTS (UK) Limited P.A.T. (Pensions) Limited
Manjit Dale	Jambright Limited O-Re Holdings UK Limited Jambright Midco Limited Cafe Pasta Limited Elliott Group Holdings (UK) Limited Ground Restaurants Limited Pandoraexpress 2A Limited Pasta Holdings Limited Pizzaexpress (Franchises) Limited Private Equity Investment Prof Redmeter Limited Relish Restaurants Limited Ristretto Group (UK) Limited Seacon Group Limited Shieldmarker Limited TDR Capital LLP VPS Acquisitions Limited	Hera Investments Two Limited Bookcash Trading Limited Duelpeople Limited (28 November 2006)[5] EGL Investments Limited Elliott Group Holdings Limited Elliott Group Limited Fallview Limited Gondola Finance Limited Gondola Holdings Limited Gondola Investments Limited Gondolaexpress PLC Halfcity Limited Holflor Limited NYSWAN Limited Pandoraexpress 1 Limited Pandoraexpress 2 Limited Pandoraexpress 3 Limited

Name	Current	Previous
	TDR Capital Nominees Limited TDR Capital Limited	Pandoraexpress 4 Limited Pandoraexpress 5 Limited Parma Stub Midco Limited Parma Stub Topco Limited Pizzaexpress (Restaurants) Limited Pizzaexpress (Wholesale) Limited Pizzaexpress Limited Pizzaexpress Merchandising Limited Riposte Limited Saint Acquisitions Limited (8 December 2009)[3] Speed 3969 Limited TDR Capital Funding Limited (23 January 2007)[3] TDR Capital General Partner Limited TDR Capital Properties Limited The Gourmet Pizza Company Limited Ticketquick Limited (25 May 2010)[3] Wayracer Limited
Isabel Hudson	Elders Insurance Limited QBE Insurance (Australia) Limited QBE Insurance Group Limited QBE Insurance (International) Limited	Basinhall Limited (20 January 2009)[3] Fineos Corporation Ltd. Fineos plc Prudential Distribution Limited Prudential Europe Assurance Holdings Plc Prudential Europe Management Services Limited (27 October 2005)[6] Prudential Health Limited Prudential International Assurance plc Synesis Administration Limited (1 December 2009)[3] Synesis Finance Limited (20 January 2009)[3] Synesis Life Limited (22 June 2010)[7] Synesis Pensions Limited (22 June 2010)[7] The Prudential Assurance Company Limited
Hugh Osmond	Aston Farm Limited Beaufort CCO Trading Limited Devonshire Place Holdings Limited Devonshire Place Investments Limited Howper 670 Limited Horizon Acquisition Company Adviser LLP Horizon Acquisition Company plc Horizon Growth Investment LLP Horizon Acquisition Subsidiary Limited Maxgate Properties Limited Morris United Limited New Life Fitness Limited O-Re Holdings UK Limited Suncap (Nominees) Limited Sun Cap Limited Sun Capital Limited Sun Capital Partners Limited Town and Field Limited Well Barn Farm Limited	Capital Management and Investment PLC Milemist Limited Punch Taverns (PPCF) Limited Sun CP New TopCo Limited

Name	Current	Previous
	Well Barn Farming Upthorpe Limited Well Barn Shoot Limited Xercise Limited Xercise2 Limited	
David Woods	Standard Life UK Smaller Companies Trust PLC Murray Income Trust plc The Moller Centre for Continuing Education Limited Steria (Management Plan) Trustees Limited Steria (Retirement Plan) Trustees Limited Steria Electricity Supply Pension Trustees Limited	Kiln Group Limited Edinburgh Java Trust PLC (19 June 2006)(8) Capital Opportunities Trust PLC (6 April 2006)(5)

(1) Placed into administration on this date and has not yet been dissolved.
(2) Proposal to strike off.
(3) Dissolved on this date.
(4) Placed into administration and dissolved on this date.
(5) Placed into voluntary liquidation and dissolved on this date.
(6) Converted/closed on this date.
(7) Placed into voluntary liquidation on 8 December 2008 and due to be dissolved on this date.
(8) Placed into compulsory liquidation and dissolved on this date.

4 DIRECTORS' REMUNERATION

In the year ended 31 December 2009, the aggregate amount of remuneration paid by the Company or its subsidiaries to the Directors is set out below:

Director	Fees/salary(1)	Benefits(2)	Annual bonus	Bonus	2009 Total
	£	£	£	£	£
Ron Sandler	121,154	—	—	—	121,154
Jonathan Moss	400,000	26,229	612,000(3)	433,333(4)	1,471,562
Simon Smith	380,000	38,154	576,555(3)	350,000(4)	1,344,709
Ian Ashken	33,333	—	—	—	33,333
René-Pierre Azria	33,333	—	—	—	33,333
David Barnes	36,667(7)	—	—	—	36,667
Ian Cormack	114,583(7)	—	—	—	114,583
Tom Cross Brown	158,457(7)	—	—	—	158,457
Manjit Dale	5,385(5)	—	—	—	5,385
Hugh Osmond	1,040,802(6)	—	—	—	1,040,802(6)

(1) Where appropriate, this figure is pro rata.
(2) Benefits include car allowance, private medical insurance, income protection, pension contributions and life assurance, as applicable.
(3) Relates to payments made in respect of the multiplier and personal performance ratings as part of the 2009 annual bonus scheme.
(4) Relates to additional payments awarded for the successful achievement of a wide range of strategic and operational activities, contingent upon the Directors remaining in service until the date the payments were made. These cash payments were made on 22 March 2010.
(5) For the period from 2 September to 12 December 2009, TDR Capital were paid fees as disclosed under the "Related Party transaction" note in the Annex: "Audited Historical Financial Information—Consolidated financial information of Phoenix Group Holdings for the period from its incorporation on 2 January 2008 to 31 December 2008 and for the year ended 31 December 2009—Note 45".
(6) Mr Osmond was paid £5,385 for his services as a Director during 2009. During 2009, Mr Osmond also received an annual monitoring fee from Impala Holdings Limited and PGH2 for a total of £914,016. In addition, for the period from 2 September to 12 December 2009, Hugh Osmond received, under a transitional services agreement, fees of £121,401.
(7) Fees to these Non-Executive Directors include amounts due to them for service on the Boards of subsidiary companies.

For further information, see "—Directors' and Jonathan Yates' Service Agreements and Letters of Appointments—Letters of appointment of the Chairman and Non-Executive Directors".

5 DIRECTORS' AND JONATHAN YATES' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

Jonathan Moss and Simon Smith (the "Executive Directors") each have a service agreement with PGS under which they are appointed to the Board of Directors of the Company and Jonathan Yates has entered into a service agreement with PGMS. Details of their service agreements are summarised below. The Non-Executive Directors, including the Chairman, entered into letters of appointment with the Company relating to their appointment to the Board of Directors of the Company, which are summarised below.

5.1 Service agreements of the Executive Directors and Jonathan Yates

The Executive Directors have each entered into service agreements with PGS and Jonathan Yates has entered into a service agreement with PGMS. Details of these service agreements are set out below:

	Date of service agreement	Commencement date of appointment to the Board	Commencement date of employment	Expiry/ Notice terms	Basic Annual Salary
Jonathan Moss (Group Chief Executive)	5 February 2010	2 September 2009	5 October 1987	12 months	£650,000
Simon Smith (Group Finance Director)	30 March 2005	2 September 2009	1 October 1998	12 months from PGS/ 6 months from Mr Smith	£400,000
Jonathan Yates (Group Finance Director – Designate)	6 May 2010	23 June 2010(1)	6 May 2010	12 months	£400,000

(1) Anticipated.

Details of the share options and awards held by the Executive Directors and Jonathan Yates are set out in "—Employee Incentive Plans – Executive Directors and Jonathan Yates" below.

(a) Jonathan Moss' Service Agreement

Mr Moss' service agreement will continue until terminated by either party giving 12 months' notice to the other, subject to earlier termination for cause.

Mr Moss' service agreement provides that PGS may terminate his employment by making a payment of a cash sum in lieu of notice equal to Mr Moss' basic salary (at the rate applicable on the date on which notice to terminate was first given by either party), plus the cost of the provision of private medical and health insurance, life assurance, and pension contributions payable for any unexpired portion of the notice period, less any required deductions (the "payment in lieu").

As an alternative to the payment in lieu being paid as a lump sum, the Remuneration Committee may require the payment in lieu to be made in instalments (with 50 per cent. being paid on the termination date, 25 per cent. being paid six months following the termination date, with the remaining 25 per cent. being paid nine months following the termination date). If Mr Moss finds alternative employment or engagement during the relevant periods, the amount of any outstanding instalments will be reduced by the amount of any basic salary or fees he receives from such employment or engagement. Payment of any such instalments would be subject to Mr Moss using all reasonable endeavours to find suitable alternative employment and/or engagement.

On termination, Mr Moss would be eligible for a payment under the Group's severance policy, the amount of which would be dependent on his length of service at the time of termination.

Mr Moss is entitled to be considered for an annual discretionary bonus. The amount of any bonus (which is payable by PGS) will be determined by the Remuneration Committee. For 2010, Mr Moss' bonus potential is 75 per cent. of salary for on target corporate and personal performance and

150 per cent. of salary for maximum performance. Any bonus payment will be subject to clawback if bonuses have been calculated on the basis of misstated or incorrect financial information. Any bonus in excess of the target bonus amount may, at the discretion of the remuneration committee, be deferred under a deferred bonus share scheme into an award of Ordinary Shares for a period of three years, subject to Mr Moss' continued employment. If Mr Moss' employment is terminated (other than by way of summary termination, in which case no bonus is payable on termination), the Remuneration Committee has the discretion to pay Mr Moss a pro rata bonus for the year in which the employment ends, payable at the same time as for other executives participating in the same scheme.

Mr Moss is entitled to receive a car allowance of £11,000 per annum (which is payable monthly, less any required deductions), and to be provided with private medical and health insurance and life assurance cover.

Mr Moss is subject to a confidentiality undertaking without limitation in time and to non-competition, non-dealing, and non-solicitation restrictive covenants for a period of 6 months following termination of employment.

Mr Moss holds a phantom share award in respect of 73,350 notional Class B Shares (which, subject to the passing of the Resolutions at the AGM and approval of the resolution at the Class Meeting and the re-designation of Class B Shares into Ordinary Shares, will become 73,350 notional Ordinary Shares) which is due to vest on 30 September 2012 and under which he is entitled to be paid a cash sum equal to the market value of the notional shares on the vesting date, subject to remaining in employment until the vesting date. The phantom share award is not subject to any performance conditions, but is otherwise subject to the same terms relating to cessation of employment, corporate events and adjustments as apply to share awards granted under the LTIP which are described under "Section D: Employee Incentive Plans" below.

Mr Moss is a member of the Money Purchase Section (defined contribution) of the Pearl Group Staff Pension Scheme and receives a group contribution of 11.7 per cent. of salary up to a maximum earnings limit (currently £123,600).

(b) Simon Smith's Service Agreement

Mr Smith's service agreement is terminable by PGS on 12 months' notice and by Mr Smith on six months' notice, subject to earlier termination for cause.

Mr Smith's service agreement provides that PGS may terminate his employment by making a payment of a cash sum in lieu of notice equal to the value of salary and benefits that he would have received (as reasonably determined by PGS) during any unexpired portion of the notice period, less any required deductions.

If Mr Smith's employment is terminated for redundancy, he is not required to serve his 12-month notice period, and is entitled to a cash sum equal to the value of salary and benefits that he would have received (as reasonably determined by PGS) during such period of notice, less any required deductions. In addition, Mr Smith is eligible on termination for a payment under the Group's severance policy which is dependent on his length of service at the time of termination.

Mr Smith is entitled to participate in an annual discretionary bonus plan under which the amount of any bonus will be subject to the achievement of certain performance targets relating to corporate and personal performance. Subject to the rules of the bonus plan from time to time, Mr Smith is only entitled to receive a bonus if he is in employment on the date of payment. In addition, PGS may from time to time, in the absolute discretion of the board of directors of PGS, award Mr Smith a bonus in addition to any bonus awarded under the annual bonus plan. Any award of such additional bonus would be subject to achievement of exceptional performance indicators and approval by the shareholders of PGS.

Mr Smith is entitled to a car allowance of £11,000 per annum, less any required deductions, and to be provided with private health insurance and life assurance cover.

Mr Smith is subject to a confidentiality undertaking without limitation in time and to a non-solicitation of employees covenant for a period of six months following termination of employment.

Mr Smith is a member of the final salary section of the Pearl Group Staff Pension Scheme. His pension entitlement accrues at a rate of 1/60th for each year of service, with a maximum pension entitlement of 2/3rds of pensionable salary at the age of 60.

It was announced on 4 May 2010 that Mr Smith would be stepping down as Group Finance Director. He will remain as Group Finance Director until 23 June 2010 and his employment will terminate on 3 October 2010.

Mr Smith will receive £538,638 in connection with the termination of his employment representing 12 months' salary and benefits and his entitlement under the Company's severance policy.

In addition, a contribution will be made to the Company's employee benefit trust in lieu of Mr Smith's participation in the annual bonus scheme for the year ending 31 December 2010, subject to a recommendation to the trustee that the contribution be allocated to a sub-trust for the benefit of Mr Smith's family. The contribution will be £393,750 multiplied by a factor (not exceeding 2) that will be determined by reference to the Group's corporate performance against the 2010 annual bonus performance targets as applied in calculating bonuses for other senior executives (capped at an amount equal to Mr Smith's maximum bonus of 150 per cent. of salary as further reduced to reflect the part of the financial year not worked) plus £100,000.

It was agreed that a recommendation would be made to the trustee of the relevant employee benefit trust that the trustee consider allocating the Class B Shares subject to the 2009 LTIP and BSP awards, referred to in relation to Mr Smith in ''—Employee Incentive Plans – Executive Directors and Jonathan Yates—LTIP and Bonus Share Plan'' below, to Mr Smith's family trust with effect from 30 April 2010. As such recommendation could not be made by that date, the Group may be liable to provide Mr Smith with the same economic benefit as if such recommendation had been made and it may, therefore, be required to make payment to Mr Smith if the share price falls or if applicable tax rules change before the relevant shares can be released to him.

The Company's remuneration committee has exercised its discretion under the LTIP and the BSP so as to allow Mr Smith's 2009 LTIP and BSP share awards to vest on the termination of Mr Smith's employment subject to satisfaction of any applicable performance targets. The Company is seeking Shareholder approval at the AGM to accelerate the vesting of the 2009 LTIP Awards to the date of Admission (which would include Mr Smith's 2009 LTIP Awards, which would then vest before the termination of his employment). The remuneration committee has also exercised its discretion under the LTIP in relation to the 2010 LTIP share award referred to in relation to Mr Smith in ''—Employee Incentive Plans – Executive Directors and Jonathan Yates—LTIP and Bonus Share Plan'' below so as to preserve one third of this award on terms that it will vest on the normal vesting date to the extent that the applicable performance targets have been satisfied at the end of the performance period. It has been agreed that Mr Smith may at his discretion, on the termination of his employment, accept the sum of £100,000 in consideration for the release of his rights to the 2010 LTIP Award.

The remuneration committee has also exercised its discretion to preserve a phantom award held by Mr Smith in respect of 58,068 notional Class B Shares (which, subject to the passing of the Resolutions at the AGM and approval of the Fourth Articles of Association at the Class Meeting and the re-designation of Class B Shares into Ordinary Shares, will become 58,068 notional Ordinary Shares) on terms that the award will vest in full on the normal vesting date on 30 September 2012. Mr Smith will be entitled to payment of a cash sum equal to the market value of the notional Ordinary Shares on the vesting date.

Mr Smith has agreed to be bound by post-termination restrictive covenants for 6 months after the termination of his employment.

(c) Jonathan Yates' Service Agreement

It was announced on 4 May 2010 that Jonathan Yates would join the Board to succeed Simon Smith as Group Finance Director. It is anticipated that Mr Yates will be appointed to the Board on 23 June 2010.

Mr Yates has entered into a service agreement with PGMS dated 6 May 2010 which will continue until terminated by either party giving 12 months' notice to the other, subject to earlier termination for cause.

Mr Yates' service agreement provides that his employment may be terminated by PGMS paying a cash sum in lieu of notice equal to Mr Yates' basic salary (at the rate applicable on the date on which notice to terminate was first given by either party), plus the cost of the provision of private medical and health insurance and life assurance, and pension contributions payable for any unexpired portion of the notice period, less any required deductions (the ''payment in lieu''). On termination, Mr Yates would be eligible for a payment under the Group's severance policy the amount of which would be dependent on his length of service at the time of termination.

As an alternative to the payment in lieu being paid as a lump sum, the remuneration committee may require the payment in lieu to be made in instalments (with 50 per cent. being paid on the termination date, 25 per cent. being paid six months following the termination date, with the remaining 25 per cent. being paid nine months following the termination date). If Mr Yates finds alternative employment or engagement during the relevant periods, the amount of any outstanding instalments will be reduced by the amount of any basic salary or fees he receives from such employment or engagement. Payment of any such instalments would be subject to Mr Yates using all reasonable endeavours to find suitable alternative employment and/or engagement.

Mr Yates is entitled to be considered for an annual discretionary bonus. The amount of any bonus will be determined by the remuneration committee. For 2010, Mr Yates' bonus potential is 75 per cent. of salary for on target corporate and personal performance and 150 per cent. of salary for maximum performance. Any bonus payment will be subject to clawback if bonuses have been calculated on the basis of misstated or incorrect financial information. Any bonus in excess of the target bonus amount may, at the discretion of the remuneration committee, be deferred under a deferred bonus share scheme into an award of Ordinary Shares for a period of three years, subject to Mr Yates' continued employment. If Mr Yates' employment is terminated (other than by way of summary termination, in which case no bonus is payable on termination), the remuneration committee has the discretion to pay Mr Yates a pro rata bonus for the year in which the employment ends, payable at the same time as for other executives participating in the same scheme.

Mr Yates is subject to a confidentiality undertaking without limitation in time and to non-competition, non-dealing, and non-solicitation restrictive covenants for a period of six months following termination of employment.

Mr Yates' basic annual salary is £400,000. He is entitled to receive a car allowance of £15,000 per annum (fixed for three years), and to be provided with private medical and health insurance and life assurance cover.

Mr Yates is a member of the AXA GPP Pension Scheme and receives a Group contribution of 20 per cent. of his basic salary.

5.2 Letters of appointment of the Chairman and Non-Executive Directors

The Chairman and the Non-Executive Directors have each entered into letters of appointment with the Company. Details of these letters of appointment are set out below:

Non-Executive Director	Date of letter of appointment	Commencement date of appointment	Expiry/ Notice terms	Annual Fee
Ron Sandler (Chairman and Non-Executive Director)	24 September 2009	24 September 2009	Six months	£450,000
Alastair Lyons (Senior Independent Non-Executive Director)	26 January 2010	29 March 2010	One month	£110,000
Ian Ashken (Non-Executive Director)	2 September 2009	2 September 2009	One month	£100,000
René-Pierre Azria (Non-Executive Director)	2 September 2009	2 September 2009	One month	£100,000
David Barnes (Independent Non-Executive Director)	2 September 2009	2 September 2009	One month	£100,000(1)
Charles Clarke (Independent Non-Executive Director)	23 December 2009	18 February 2010	One month	£100,000
Ian Cormack (Independent Non-Executive Director)	2 September 2009	2 September 2009	One month	£110,000(4)
Tom Cross Brown (Independent Non-Executive Director)	24 September 2009	24 September 2009	One month	£100,000(5)
Manjit Dale (Non-Executive Director)	2 September 2009	2 September 2009	One month	£100,000(2)
Isabel Hudson (Independent Non-Executive Director)	11 December 2009	18 February 2010	One month	£100,000
Hugh Osmond (Non-Executive Director)	2 September 2009	2 September 2009	One month	£100,000(3)
David Woods (Independent Non-Executive Director)	21 December 2009	18 February 2010	One month	£110,000

(1) Mr Barnes is also entitled to an annual fee of £5,000 as a non-executive director of PGH2 under a letter of appointment dated 2 September 2009. He is also entitled to an annual fee of £5,000 as a non-executive director of Phoenix Life Holdings under a letter of appointment dated 2 September 2009.

(2) No fee is payable to Mr Dale in respect of any period in which he or any TDR Capital entity receives any other fee from the Company or any of its subsidiaries or associated companies.

(3) No fee is payable to Mr Osmond in respect of any period in which he or any Sun Capital entity receives any other fee from the Company or any of its subsidiaries or associated companies.

(4) Mr Cormack is also entitled to an annual fee of £10,000 as a non-executive director of Phoenix Life Holdings under a letter of appointment dated 27 August 2009.

(5) Mr Cross Brown is also entitled to an annual fee of £10,000 as a non-executive director of Phoenix Life Holdings under a letter of appointment dated 1 May 2010.

The appointment of the Chairman and each Non-Executive Director is for an initial term of three years (and is renewable for a further three year term), unless terminated earlier by either party with notice, or by the Company for cause. The appointment of the Chairman and each Non-Executive Director is also subject to re-election by the Company in general meeting, the Articles of Association, and continued satisfactory performance. If the Chairman or a Non-Executive Director is not re-elected by the Shareholders, their appointment terminates automatically with immediate effect.

The Chairman and Non-Executive Directors are not entitled to receive any compensation on termination of their appointment and no fees will be payable in respect of any unserved portion of the term of their appointment. Further, Non-Executive Directors are not entitled to participate in the Group's share, bonus or pension schemes.

The Chairman and each Non-Executive Director is entitled to reimbursement from the Company of reasonable expenses incurred in the performance of their duties. The Chairman and each Non-Executive Director is subject to a confidentiality undertaking without limitation in time. The Chairman and Non-Executive Directors may, in certain circumstances, obtain independent professional advice in the furtherance of their duties as Directors at the Company's expense.

The Chairman, under the terms of his appointment, was entitled to receive 300,000 Class B shares; in line with this agreement the Chairman was issued 177,000 Class B Shares on 31 March 2010 on a net of tax basis.

For more information on the Class B Shares awarded to the Chairman, see "—Directors' Interests" below.

5.3 Other service agreements or letters of appointment

Save as set out in paragraphs 5.1 and 5.2 above, there are no existing or proposed service agreements or letters of appointment between the Directors and any member of the Group.

6 DIRECTORS' INTERESTS

The interests in the share capital of the Company of the Directors and their immediate families (all of which, unless otherwise stated, are beneficial) as at 3 June 2010 (being the latest practicable date prior to publication of this Prospectus) were as follows:

	As at 3 June 2010				
Director	Number of Ordinary Shares	Number of Class B Shares(6)	Total number of Class B and Ordinary Shares	Number of Shares issuable pursuant to Warrants	Number of Shares issuable pursuant to Contingent Rights(1)
Ron Sandler(2)	—	177,000	177,000	—	—
Jonathan Moss	—	33,989(7)	33,989	—	15,105(7)
Simon Smith	—	32,200(8)	32,200	—	14,575(8)
Alastair Lyons	—	—	—	—	—
Ian Ashken	1,163,311	174,348	1,337,659(5)	—	—
René-Pierre Azria	16,391	—	16,391	—	—
David Barnes	—	—	—	—	—
Charles Clarke	—	—	—	—	—
Ian Cormack	—	—	—	—	—
Tom Cross-Brown	—	—	—	—	—
Manjit Dale(3)	—	—	—	—	—
Isabel Hudson	—	—	—	—	—
Hugh Osmond(4)	—	717,166	717,166	—	823,355
David Woods	—	—	—	—	—

(1) The Company may be required to issue a total of 26,500,000 Ordinary Shares pursuant to the Contingent Rights contained in the Contingent Consideration Agreement (see Part XI: "Additional Information—Material Contracts—Contingent Consideration Agreement"). The amounts given are calculated on the basis that all such Ordinary Shares are required to be issued.

(2) Under the terms of his appointment, Ron Sandler is entitled to be awarded 300,000 Class B Shares. In line with this agreement, Ron Sandler received 177,000 Class B Shares on 31 March 2010 (being the net of tax number of shares).

(3) TDR Capital Nominees Limited is a wholly-owned subsidiary of TDR Capital LLP, of which Manjit Dale is a founding partner. (For further details on TDR Capital's interests in Shares, see Part XI: "Additional Information—Major Shareholders"). In addition, TDR Capital has Contingent Rights in respect of a further 11,933,073 Shares.

(4) In addition, Hugh Osmond is a beneficial shareholder of Xercise Limited. (For information regarding Xercise Limited's interests in Shares and Contingent Rights, see Part XI: "Additional Information—Major Shareholders" and the Annex: "Audited Historical Financial Information—Consolidated financial information of Phoenix Group Holdings for the period from its incorporation on 2 January 2008 to 31 December 2008 and for the year ended 31 December 2009—Note 45").

(5) Mr Ashken has an 18 per cent. interest in Marlin Equities IV, LLC and as a result has a total share interest in the Company of 1,337,659 Shares. Marlin Equities IV, LLC owns a total of 7,436,806 Shares in the Company.

(6) At Admission, the Class B Shares will be re-designated into Ordinary Shares.

(7) The amounts for Jonathan Moss include certain rights held by trusts under which he has an interest.

(8) The amounts for Simon Smith include certain rights held by trusts under which he has an interest.

7 EMPLOYEE INCENTIVE PLANS – EXECUTIVE DIRECTORS AND JONATHAN YATES

7.1 LTIP and Bonus Share Plan

(a) 2009 Awards

As described further in "Employee Incentive Plans" below, the Company has allocated Class B Shares to an employee benefit trust pursuant to the terms of the LTIP and BSP and made recommendations to the trustee in respect of the Class B Shares so allocated. Jonathan Moss and Simon Smith are both within the class of potential beneficiaries of the employee benefit trust and the terms of the recommendation asks the trustee to consider allocating the following number of Class B Shares to them or their family trusts:

	Number of Class B Shares which are the subject of the recommendation under the LTIP*	2009 LTIP Awards Normal Vesting Date	Number of Class B Shares which are the subject of the recommendation under the BSP	2009 BSP Awards Normal Vesting Date
Jonathan Moss	112,500	21 September 2012	112,500	21 September 2011
Simon Smith	100,000	21 September 2012	100,000	21 September 2011

* The performance condition attaching to the 2009 LTIP Awards is the successful premium listing of the Company's shares on the London Stock Exchange. The Company is seeking shareholder approval at the AGM to accelerate the vesting of the 2009 LTIP Awards from the third anniversary of grant to the date of Admission.

None of Jonathan Moss, Simon Smith or their respective family trusts has any entitlement to or interest in the Class B Shares unless or until the trustee exercises its discretion to allocate such Class B Shares to them following satisfaction (or, in certain prescribed circumstances, waiver) of all performance and vesting conditions. Subject to the passing of the Resolutions at the AGM and the re-designation of Class B Shares into Ordinary Shares, the Class B Shares held by the employee benefit trust will also be re-designated into an equivalent number of Ordinary Shares.

(b) 2010 LTIP Awards

Details of the nil cost options granted on 28 May 2010 under the LTIP to Mr Moss, Mr Smith and Mr Yates are set out in the table below.

	Number of Class B Shares under 2010 LTIP Award	2010 LTIP Awards Normal Vesting Date
Jonathan Moss	207,171	28 May 2013
Simon Smith	159,362	28 May 2013
Jonathan Yates	127,490	28 May 2013

The 2010 LTIP Awards are subject to two performance conditions. The performance condition attached to the first 50 per cent. of the shares comprised in an LTIP Award is based on embedded value growth targets measured over the three financial years from 1 January 2010 to 31 December 2012. 25 per cent. of these shares will vest if embedded value as calculated under the LTIP rules increases over the period by the relevant risk free rate plus 2.5 per cent., rising on a straight line basis to full vesting of this tranche of an LTIP Award if embedded value increases by the relevant risk free rate plus 6 per cent. The performance condition attaching to the remaining 50 per cent. of the shares comprised in an LTIP Award will be based on cash generation targets measured over the three financial years of the Company starting 1 January 2010. 25 per cent. of the shares comprised in this tranche of an award will vest if cash of £1,375 million is generated over the period, rising on a straight line basis to full vesting of this tranche of an LTIP Awards if cash of £1,655 million is generated.

Once these performance conditions have been measured, the 2010 LTIP Awards will only vest if the remuneration committee is also satisfied that the levels of bank debt and associated interest costs have remained within parameters acceptable to the remuneration committee over the vesting period and that the Company has made progress considered to be reasonable by it in executing any strategy agreed by the Board on debt management and capital restructuring.

Subject to the passing of the Resolutions at the AGM and of the resolution at the Class Meeting and the re-designation of the Class B Shares into Ordinary Shares, the LTIP Awards will be automatically exchanged for a new award over an equivalent number of Ordinary Shares.

7.2 Sharesave Scheme

Details of the options granted on 22 January 2010 under the Sharesave Scheme to Mr Moss and Mr Smith are set out in the table below. Participants were invited to select savings contracts of three or five years.

	Number of Ordinary Shares under Option	Exercise price per Ordinary Share	Normal Exercise Period
Jonathan Moss	1,611	£5.63	1.03.2013-31.08.2013
Simon Smith	2,761	£5.63	1.03.2015-31.08.2015

8 CONFLICTS OF INTERESTS AND OTHER MATTERS

The Company is not aware of any conflicts of interest between any duties owed by the Directors to the Company and their private interests or other duties. Certain Directors are affiliated with, or were nominated for appointment by (pursuant to rights more fully described in Part XI: ''Additional Information—Material Contracts—Lender Relationship Agreement'' and ''—Material Contracts—Sellers' Relationship Agreement''), shareholders of the Company, which may give rise to conflicts of interests from time to time. The Company has procedures in place to identify and manage conflicts that may arise. Manjit Dale and Hugh Osmond are affiliated to major Shareholders of the Company, being TDR Capital and Xercise Limited respectively. David Barnes is the Lender Non-Executive Director nominated under the Lender Relationship Agreement (as those two terms are defined in Part XI: ''Additional Information—Material Contracts—Lender Relationship Agreement). For further information on these relationships, see Part XI: ''Additional Information—Major Shareholders'' and ''—Related Party Transactions'').

During the five years immediately prior to the date of this Prospectus, except as disclosed under ''—Other directorships/partnerships'' above, none of the Directors has:

- been convicted in relation to a fraudulent offence;
- been associated with any bankruptcies, receiverships or liquidations whilst acting in his capacity as member of an administrative, management or supervisory body of a company, a partner with unlimited liability, a founder or a member of senior management of a company; or
- received an official public incrimination and/or sanction by a statutory or regulatory authority (including designated professional bodies) or has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

SECTION B: SENIOR MANAGEMENT

1 THE EXECUTIVE COMMITTEE

The Group operates under the day-to-day direction of a UK-based executive committee (the ''Executive Committee''). Aided by its subcommittees, the Executive Committee oversees matters relating to the implementation of the Group's strategy and defines the optimal operating structure. The members of the Executive Committee (the ''Senior Managers'') and their key roles and responsibilities are outlined as follows:

Jonathan Moss

Group Chief Executive Officer and Director of Phoenix Life Holdings

- Lead and direct the Group's businesses in the delivery of the Group strategy and business plan;
- Maximise shareholder value and improve returns for policyholders;
- Embed a Group culture which recognises our policyholder obligations in terms of service and security; and
- Manage the Group's key external stakeholders.

Simon Smith

Group Finance Director and Director of Phoenix Life Holdings

- Develop and deliver the Group's financial business plan in line with the strategy;

- Ensure that the Group's finances and capital are managed and controlled;
- Ensure that the Group has effective processes in place to ensure all statutory and tax reporting obligations are met; and
- Assist the Group Chief Executive in managing the Group's key external stakeholders.

Jonathan Yates

Group Finance Director – Designate

- Develop and deliver the Group's financial business plan in line with strategy;
- Ensure that the Group's finances and capital are managed and controlled;
- Ensure that the Group has effective processes in place to ensure all statutory and tax reporting obligations are met; and
- Assist the Group Chief Executive in managing the Group's key external stakeholders.

Chris Samuel

Chief Executive, Ignis Asset Management

- Lead the development and delivery of the Ignis Asset Management business strategy, including the growth of third party offerings;
- Maximise the value of Ignis Asset Management by delivering top quartile investment performance and a profitable service to all managed clients (including Phoenix Life); and
- Ensure that the activities of Ignis Asset Management are undertaken with due regard to regulatory requirements.

Mike Merrick

Chief Executive, Phoenix Life

- Lead the development and delivery of the Phoenix Life business strategy, including the continued integration of life businesses with a single entity;
- Ensure the optimisation of outcomes for customers in terms of both value and security; and
- Ensure Phoenix Life deploys capital efficiently and effectively, while adhering to all regulatory requirements.

Diarmuid Cummins

Managing Director, Corporate Office

- Support the Group Chief Executive and Group Finance Director in the development and delivery of Group strategies and plans;
- Maximise shareholder value though clear, rigorous and innovative assessment of business opportunities; and
- Lead Group-wide change initiatives and provide administrative oversight of the Corporate Office.

Jane MacLeod

General Counsel

- Oversee and coordinate the implementation of appropriate corporate governance procedures across the Group;
- Lead the provision of legal advice to the Group Board, the Executive Committee and other Group company boards of directors and senior management; and
- Oversee statutory administration of Group companies, ensuring compliance by Group companies and staff with relevant legal obligations.

Alan Jones

Group Human Resources Director

- Deliver high quality human resources services to the Group Board, the Executive Committee and operating companies;
- Lead in the implementation of the Group's Employee Strategy in order to recruit, retain, motivate and develop employees; and
- Provide guidance and support on human resources matters to the Group Chief Executive, the Executive Committee and the Group Board.

Jean Park

Chief Risk Officer

- Oversee and manage the Group's risk framework in line with the risk strategy and appetite;
- Lead the Group's risk management function, embracing changes in best practice and regulation, including Solvency II; and
- Support the enhancement of the risk management framework at both Group and operating segment level.

The business address of each of the Senior Managers is 1st Floor, 32 Commercial Street, St. Helier, Jersey JE2 3RU, Channel Islands.

2 BIOGRAPHIES

Jonathan Moss

For Jonathan Moss' biography, please see "—Section A: Directors" of this Part X.

Simon Smith

For Simon Smith's biography, please see "—Section A: Directors" of this Part X.

Jonathan Yates

For Jonathan Yates' biography, please see "—Section A: Directors" of this Part X.

Diarmuid Cummins

Diarmuid Cummins was appointed Managing Director, Corporate Office in September 2009, having joined OPB in September 2008. Prior to joining the Group, Diarmuid was COO of MidOcean Partner's European operations and its predecessor DB Capital Partners, as well as COO of Morgan Grenfell Private Equity. Prior to DB Capital Partners, Diarmuid was company secretary of Morgan Grenfell & Co. having joined Deutsche Bank from law firm Taylor Wessing.

Mike Merrick

Mike Merrick was appointed Chief Executive, Phoenix Life in September 2009. Phoenix Life is the life and pension business of the Group. Mike was previously the Group Chief Actuary following the acquisition of Resolution. Having qualified in 1988, Mike held various roles in London Life including Chief Financial Officer, and then moved to Britannic to lead the actuarial team.

Chris Samuel

Chris Samuel was appointed Managing Director, Ignis Asset Management in August 2009. Prior to joining OPB in February 2009, Chris held, over some 15 years, director positions on the boards of directors of Gartmore Investment Management, Hill Samuel Asset Management and Cambridge Place Investment Management. Prior to this, Chris, who qualified as a Chartered Accountant with KPMG, spent 10 years in senior finance roles with Prudential-Bache in London, Toronto, Tokyo and New York.

Jane MacLeod

Jane MacLeod was appointed General Counsel in October 2009, having previously been Group Legal Director since September 2008 and prior to that Senior Legal Advisor for PGH2 since February 2006. Jane has previously held senior legal roles with Henderson Group plc, AMP (UK) plc, and law firms Minter Ellison (Australia) and Wilde Sapte (UK).

Alan Jones

Alan Jones was appointed Group Human Resources Director for OPB in May 2008. Previously Alan was HR Director for Resolution, HR Director for Britannic Group and HR Director for Heath Lambert. Alan started his career in the Royal Navy where he held a variety of posts including Head of the Navy's Management and Leadership and Head of HR & Training.

Jean Park

Jean Park was appointed Chief Risk Officer in November 2009. Previously, Jean was Risk Management Director and a member of the executive of both Scottish Widows Group – Life, Pensions, Investment Management and Banking and Lloyds TSB Insurance and Investments Division.

Jean's career started at Ernst & Young where she qualified as a Chartered Accountant, prior to moving to Scottish Life Assurance Company and then to Scottish Widows.

3 OTHER DIRECTORSHIPS/PARTNERSHIPS

In respect of each Senior Manager, details are set out below of the companies and partnerships (not including any member of the Group) of which such Senior Manager has been a member of the administrative, management or supervisory bodies or partner at any time in the five years before the date of this Prospectus:

Name	Current	Previous
Diarmuid Cummins	None	LA Fitness Limited MOP Acquisitions (GCO) Limited Morgan Grenfell Private Equity Limited Morgan Grenfell Development Capital Holdings Ltd TAG Acquisitions Limited MOP Acquisitions (LAF) Limited MOP Acquisitions (GCO) Limited Level 40 Management Services Limited Deutsche European Partners IV (No.9) Nominees Limited Deutsche European Partners IV (US ERISA)(No.1)) Nominees Limited Deutsche European Partners IV (US Dollar Fund) Nominees Limited Morgan Grenfell Capital (GP) Limited Morgan Grenfell Development Capital Holdings Limited Morgan Grenfell Development Capital Nominees Limited Morgan Grenfell Capital Trustee Limited Morgan Grenfell Development Capital Syndications Limited
Mike Merrick	None	None
Chris Samuel	None	Cambridge Place Limited Cambridge Place Partners (UK) Limited Fund Distribution Limited
Jane MacLeod	None	None
Alan Jones	The Talent Development Consultancy Limited	None
Jean Park	None	None

4 SENIOR MANAGERS' REMUNERATION

For the year ended 31 December 2009, the total aggregate amount of remuneration paid by the Company or its subsidiaries to the senior management of the Group was approximately £3.41 million. This amount compromises salary, annual bonus, car allowance, pension contributions of approximately £134,000, and private medical insurance. In addition to the amount above, each Senior Manager is entitled to death in service benefit of four times base salary. The remuneration amount for both Jean Park and Chris Samuel is a pro-rated amount as they both joined part way through 2009.

5 SENIOR MANAGERS' INTERESTS

The interests in the share capital of the Company of the Senior Managers and their immediate families (all of which, unless otherwise stated, are beneficial) as at 3 June 2010 (being the latest practicable date prior to publication of this Prospectus) were as follows:

Senior Manager	Number of Ordinary Shares	Number of Class B Shares(2)	Total number of Class B and Ordinary Shares	Number of Shares issuable pursuant to Warrants	Number of Shares issuable pursuant to Contingent Rights(1)
Diarmuid Cummins	—	—	—	—	—
Mike Merrick	—	—	—	—	—
Chris Samuel	—	—	—	—	—
Jane MacLeod	—	7,000	7,000	—	6,360
Alan Jones	—	—	—	—	—
Jean Park	—	—	—	—	—

(1) The Company may be required to issue a total of 26,500,000 Shares pursuant to the Contingent Rights contained in the Contingent Consideration Agreement (see Part XI: "Additional Information—Material Contracts—Amended Contingent Rights Agreements"). The amounts given are calculated on the basis that all such Shares are required to be issued.

(2) At Admission, the Class B Shares will be re-designated into Ordinary Shares.

6 EMPLOYEE INCENTIVE PLANS – SENIOR MANAGERS

6.1 LTIP and Bonus Share Plan

(a) 2009 Awards

As described further in "Employee Incentive Plans" below, the Company has allocated Class B Shares to an employee benefit trust pursuant to the terms of the LTIP and BSP and made recommendations to the trustee in respect of the Class B Shares so allocated. The Senior Managers listed below are within the class of potential beneficiaries of the employee benefit trust and the terms of the recommendation asks the trustee to consider allocating the following number of Class B Shares to them or their family trusts:

	Number of Class B Shares which are the subject of the recommendation under the LTIP*	2009 LTIP Awards Normal Vesting Date	Number of Class B Shares which are the subject of the recommendation under the BSP	2009 BSP Awards Normal Vesting Date
Diarmuid Cummins	20,000	31 March 2013	20,000	31 March 2012
Mike Merrick	32,500	21 September 2012	32,500	21 September 2011
Chris Samuel	—	—	—	—
Jane MacLeod	12,500	21 September 2012	12,500	21 September 2011
Alan Jones	20,000	31 March 2013	20,000	31 March 2012
Jean Park	20,000	31 March 2013	—	—

* The performance condition attaching to the 2009 LTIP Awards is the successful premium listing of the Company's shares on the London Stock Exchange. The Company is seeking shareholder approval at the AGM to accelerate the vesting of the 2009 LTIP Awards from the third anniversary of grant to the date of Admission.

None of the Senior Managers or their respective family trusts have any entitlement to or interest in the Class B Shares unless or until the trustee exercises its discretion to allocate such Class B Shares to them following satisfaction (or, in certain prescribed circumstances, waiver) of all performance and vesting conditions. Subject to the passing of the Resolutions at the AGM, when the Class B Shares are re-designated into Ordinary Shares, the Class B Shares issued to the employee benefit trust will also be re-designated into Ordinary Shares.

(b) 2010 LTIP Awards

Details of the nil cost options granted on 28 May 2010 under the LTIP to the following Senior Managers are set out in the table below.

	Number of Class B Shares under 2010 LTIP Award	**2010 LTIP Awards Normal Vesting Date**
Diarmuid Cummins	65,737	28 May 2013
Mike Merrick	119,521	28 May 2013
Chris Samuel[(1)]	—	—
Jane MacLeod	52,589	28 May 2013
Alan Jones	53,784	28 May 2013
Jean Park	62,151	28 May 2013

(1) Chris Samuel was granted participation in an Ignis Asset Management cash based long term incentive plan on 28 May 2010, under which, subject to his continued employment, he will be entitled to cash payments, the amount of which will be linked to the increase in the assessed market value of Ignis Asset Management over the fourth, fifth and sixth years starting from January 2010.

The 2010 LTIP Awards are subject to two performance conditions. The performance condition attached to the first 50 per cent. of the shares comprised in an LTIP Award is based on embedded value growth targets measured over the three financial years from 1 January 2010 to 31 December 2012. 25 per cent. of these shares will vest if embedded value as calculated under the LTIP rules increases over the period by the relevant risk free rate plus 2.5 per cent., rising on a straight line basis to full vesting of this tranche of an LTIP Award if embedded value increases by the relevant risk free rate plus 6 per cent. The performance condition attaching to the remaining 50 per cent. of the shares comprised in an LTIP Award will be based on cash generation targets measured over the three financial years of the Company starting 1 January 2010. 25 per cent. of the shares comprised in this tranche of an award will vest if cash of £1,375 million is generated over the period, rising on a straight line basis to full vesting of this tranche of an LTIP Awards if cash of £1,655 million is generated.

Once these performance conditions have been measured, the 2010 LTIP Awards will only vest if the remuneration committee is also satisfied that the levels of bank debt and associated interest costs have remained within parameters acceptable to the remuneration committee over the vesting period and that the Company has made progress considered to be reasonable by it in executing any strategy agreed by the Board on debt management and capital restructuring.

Subject to the passing of the Resolutions at the AGM and of the resolution at the Class Meeting and the re-designation of the Class B Shares into Ordinary Shares, the LTIP Awards will be automatically exchanged for a new award over an equivalent number of Ordinary Shares.

6.2 Sharesave Scheme

Details of the options granted on 22 January 2010 under the Sharesave Scheme to senior members are set out in the table below. Participants were invited to select savings contracts of 3 or 5 years.

	Number of Ordinary Shares under Options	**Exercise price per Ordinary Share**	**Normal Exercise Period**
Diarmuid Cummins	2,761	£5.63	1.03.2015 – 31.08.2015
Mike Merrick	1,611	£5.63	1.03.2013 – 31.08.2013
Chris Samuel	—	—	—
Jane MacLeod	1,611	£5.63	1.03.2013 – 31.08.2013
Alan Jones	1,611	£5.63	1.03.2013 – 31.08.2013
Jean Park	—	—	—

7 CONFLICTS OF INTERESTS AND OTHER MATTERS

The Company is not aware of any conflicts of interest between any duties owed by the Senior Managers to the Company and their private interests or other duties. The Company has procedures in place to identify and manage conflicts that may arise.

During the five years immediately prior to the date of this Prospectus, none of the Senior Managers has:

- been convicted in relation to a fraudulent offence;
- been associated with any bankruptcies, receiverships or liquidations whilst acting in his capacity as member of an administrative, management or supervisory body of a company, a partner with unlimited liability, a founder or a member of senior management of a company; or
- received an official public incrimination and/or sanction by a statutory or regulatory authority (including designated professional bodies) or has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

8 SHARE DEALING CODE

The Company has adopted a Code of Practice on Share Dealing in relation to the Shares which is based on, and is at least as rigorous as, the model code as published in the Listing Rules. The code adopted applies to senior management and other relevant employees of the Group.

SECTION C: EMPLOYEES

The Group had approximately 1,370 full-time equivalent employees on 31 December 2009, compared to approximately 1,530 full-time equivalent employees of OPB on 31 December 2008. As at 31 December 2007, prior to the acquisition of the Resolution Group by OPB, there were approximately 240 full-time employees of OPB and approximately 1,620 full-time employees of the Resolution Group, a total of 1,860 employees across OPB and Resolution Group.

The number of full-time equivalent employees of OPB reduced in 2008 due to the transfer of the on-sold assets to Royal London. The figure reduced further in 2009 as a result of further transfers to Royal London and the ongoing closure of its Glasgow and Peterborough life company offices.

In connection with the Group having substantially vacated its Glasgow life office and the planned closure of its Peterborough office by the second quarter of 2011, and other headcount rationalisation measures, the Group's management expects the number of employees to decrease by approximately 300 by the end of 2012.

The Group has collective consultation agreements in place with Unite, the largest UK trade union, covering certain types of employees at the Group's Wythall and Glasgow premises and all employees at its Peterborough premises.

SECTION D: EMPLOYEE INCENTIVE PLANS

The LTIP, the RSP, the Sharesave Scheme, the SIP and the DBSS have been introduced for the purpose of incentivising and motivating the Company's employees by reference to the Company's shares. The BSP was introduced to reward selected employees for their efforts and performance during the process of the Acquisition. There is no intention to grant further awards under the BSP. The Sharesave Scheme and the SIP are intended to give participants favourable tax treatment on the acquisition of the Company's shares under those plans. The DBSS has been introduced to facilitate the bonus deferral of all or part of any annual bonuses earned by members of the Executive Committee.

A total of 500,000 Class B Shares have been issued to an employee benefit trust pursuant to the BSP and are held for the potential future benefit of certain selected employees and/or their families. No awards or shares have to date been granted or allocated pursuant to the RSP. After Admission awards and options may be granted under the LTIP and RSP in relation to Ordinary Shares only. No awards have been granted under the SIP to date. Options were granted on 22 January 2010 to employees under the Sharesave Scheme. Details of the options granted to Senior Managers under the Sharesave Scheme are set out in Part X: "Directors, Senior Management and Employees—Section B: Senior Management—Employee Incentive Plans – Senior Managers". Awards and options granted under the SIP and Sharesave Scheme may be granted over Ordinary Shares only. Accordingly, references below to shares are to Class B Shares or Ordinary Shares, as appropriate, on this basis.

Subject to the passing of the Resolutions at the AGM and of the resolution at the Class Meeting and the re-designation of Class B Shares into Ordinary Shares, any subsisting options or awards granted under the LTIP, RSP, Sharesave Scheme, SIP, BSP and the DBSS (each a "Share Plan" and, together, the "Share Plans") over Class B Shares will be automatically exchanged for options or awards over an equivalent number of Ordinary Shares. In addition, the Class B Shares issued to the employee benefit trust will also be converted into an equivalent number of Ordinary Shares.

1 THE LONG-TERM INCENTIVE PLAN

1.1 Overview

The LTIP was adopted on 2 July 2009 by the Board, and approved by its shareholders with effect from 2 September 2009. An eligible employee may be granted a conditional share award (which entitles a participant to acquire or receive shares for no or only a nominal payment), a share option to acquire shares at a nil or nominal exercise price, an allocation of shares which may be forfeited in certain circumstances, or any combination of them (each an "LTIP Award"). Prior to Admission, shares may also be allocated through a trust arrangement as described below.

The LTIP provides that, in countries where an award or option involving real shares or an allocation of forfeitable shares is not appropriate or feasible for legal, regulatory or tax reasons, a phantom award may be used. This delivers a cash payment equal to the net benefit a participant would have derived from the vesting or exercise of an LTIP Award. In certain circumstances, share based awards may be satisfied (in whole or in part) in cash.

1.2 Eligibility

All of the Company's employees, including its executive directors and those of its subsidiaries are eligible to participate in the LTIP at the discretion of the remuneration committee.

1.3 Grant of LTIP Awards

Subject to any applicable dealing restrictions, the remuneration committee may grant LTIP Awards under the LTIP at any time while the Company is listed on Euronext Amsterdam. Following Admission, grants may be made during the period of 42 days commencing on (i) the date of Admission, (ii) the announcement of the Company's results for any period, or (iii) at such other time as the remuneration committee considers that exceptional circumstances exist which justify a grant.

No payment is required for the grant of an LTIP Award.

1.4 Individual limits

The remuneration committee determines the appropriate level of grant for participants. However, the maximum number of shares under LTIP Awards granted to a participant in any twelve-month period will generally not have an aggregate market value, as measured at the date of grant, exceeding 300 per cent. of the participant's base salary. In exceptional circumstances, such as recruitment or retention, a limit of up to 400 per cent. of annual base salary will apply. Market value is based on the closing middle market quotation for a share as derived from the relevant recognised stock exchange on which the shares are listed for the dealing day immediately preceding the date of grant or otherwise as determined by the remuneration committee. When determining the size of any individual grant, the remuneration committee, as far as possible, takes into account the likely impact of dividend enhancement, as described below. Where a participant is required to bear the costs of his employer's National Insurance Contributions on his LTIP Award, the number of shares under his award may, at the discretion of the remuneration committee, be increased to reflect this, subject to the maximum limit referred to above.

1.5 Dividend enhancement

The number of shares which vest under an LTIP Award is increased to reflect the value of dividends paid on shares during the vesting period.

1.6 Performance conditions

LTIP Awards are subject to performance conditions imposed by the remuneration committee at the date of grant. Performance conditions are generally measured over a period of three years. The extent to which the performance conditions are satisfied will determine how many (if any) of the shares under an LTIP Award a participant is entitled to acquire or in the case of an allocation of forfeitable shares, to retain. Performance conditions are not capable of being retested, so that any proportion of an LTIP Award which does not vest on the normal vesting date will lapse or be forfeited (as applicable).

The specific performance conditions applicable to a grant of an LTIP Award are determined by the remuneration committee at the date of grant. However, as a general matter, performance conditions will be demanding and stretching and, where appropriate, performance may be measured against a defined comparator group. Vesting levels are determined on a sliding scale by reference to achievement of the performance conditions. The remuneration committee may determine that an LTIP

Award should be subject to multiple conditions or that an LTIP Award should be sub-divided and that each part be subject to a different condition. The remuneration committee is required to give due regard to best practice and any applicable codes published by regulators when setting performance conditions.

The remuneration committee may set different performance conditions for LTIP Awards granted in different years provided that, in the reasonable opinion of the remuneration committee, the targets are not materially less challenging in any year.

The remuneration committee may vary the performance conditions applying to existing LTIP Awards if an event occurs which results in the conditions no longer being a fair measure of performance provided that, in the reasonable opinion of the remuneration committee, the new conditions are not materially less challenging than the original conditions would have been but for the event in question.

1.7 Release or exercise of LTIP Awards

Subject to satisfaction of the applicable performance conditions the vesting period for LTIP Awards is three years after the date of their grant. Vested share awards are released to participants automatically within 30 days of the date the shares vest. Vested share options are exercisable up until the tenth anniversary of the date of grant, after which they lapse. Vested forfeitable shares will cease to be subject to the risk of forfeiture on vesting.

LTIP Awards normally only vest if the participant remains in employment with the Company or any of its subsidiaries. If a participant leaves the Company's employment during the vesting period, vested and unvested parts of the LTIP Awards will normally lapse or be forfeited. However, if the reason for leaving is death, injury, disability, ill health, redundancy or any other reason at the remuneration committee's discretion, LTIP Awards will not lapse but will vest on the normal vesting date, to the extent that the remuneration committee determines that the performance conditions have been satisfied over the full vesting period but subject to a time pro rating reduction (based on the total number of complete months from the date of grant to the cessation of employment relative to a period of 36 months). Alternatively, the remuneration committee may, in its absolute discretion, determine that LTIP Awards should vest on the date of cessation of employment, subject to the satisfaction of the performance conditions at that date and to a time pro rating reduction. In either circumstance, the remuneration committee may determine that the pro rating reduction should not apply at all or should apply to a lesser extent. In the event of a participant's death, an LTIP Award will vest and the shares may be released or acquired by his or her personal representatives within twelve months of such event.

1.8 Corporate events

In the event of a change of control, scheme of arrangement or voluntary winding-up, unvested LTIP Awards will vest to the extent that the performance conditions have been satisfied at the time of the relevant event but subject to a time pro rating reduction (based on the number of complete months from the date of grant to the date of the relevant event relative to a period of 36 months). The remuneration committee may in its discretion disapply the application of time pro rating or determine that pro rating should apply to a lesser extent. The remuneration committee may also allow or require LTIP Awards to be exchanged for equivalent awards over shares in the acquiring company. In the event of an internal reorganisation which involves the creation of a new holding company, LTIP Awards will not vest and will be replaced by equivalent awards over shares in the new holding company.

If a demerger, special dividend or other similar event or transaction occurs which would affect the market value of a share to a material extent, then the remuneration committee may determine that LTIP Awards will vest as on a change of control.

1.9 Allocations to a trust

The LTIP also provides that, at any time prior to Admission, Shares may be issued to an employee benefit trust with a recommendation to the trustee that it allocate Shares to eligible employees or to their family trusts having regard to the vesting terms of the LTIP (including the vesting period, relevant leaver provisions and performance conditions) as each may apply from time to time (including any variations to those conditions which shareholders may approve). To date recommendations have been made in respect of 463,750 Class B Shares, but none have been issued to date. The Company may issue Class B Shares to the employee benefit trust in connection with these recommendations. Shares cannot be awarded in this manner under the LTIP following Admission.

2 THE RESTRICTED SHARE PLAN

2.1 Overview

The RSP was adopted on 2 July 2009 by the Board, and was approved by its shareholders with effect from 2 September 2009. An eligible employee may be granted a conditional share award (which entitles a participant to acquire or receive shares for no or only a nominal payment), a share option to acquire shares at a nil or nominal exercise price, an allocation of shares which may be forfeited in certain circumstances, or any combination of them (each a ''RSP Award'').

The RSP provides that, in countries where an award or option involving real shares or an allocation of forfeitable shares is not appropriate or feasible for legal, regulatory or tax reasons, a phantom award may be used. This delivers a cash payment equal to the net benefit a participant would have derived from the vesting or exercise of a RSP Award. In certain circumstances, share-based awards may be satisfied in cash.

RSP Awards are intended to be made only in special or unusual circumstances, such as where it may aid the recruitment of an individual or is necessary and/or desirable for the retention of a key employee.

2.2 Eligibility

All of the Company's employees, excluding its executive directors (other than on recruitment), and those of its subsidiaries are eligible to participate in the RSP at the discretion of the remuneration committee.

2.3 Grant of RSP Awards

Subject to any applicable dealing restrictions, the remuneration committee may grant RSP Awards under the RSP at any time while the Company is listed on Euronext Amsterdam. Following Admission, grants may be made during the period of 42 days commencing on either (i) the date of Admission, (ii) the announcement of the Company's results for any period or (iii) at such other time as the remuneration committee considers that exceptional circumstances exist which justify a grant.

No payment is required for the grant of a RSP Award.

Vesting of RSP Awards is not generally subject to performance conditions, but the remuneration committee may, in its discretion, set performance or other objective conditions at the date of grant as conditions of vesting.

2.4 Individual limits

The remuneration committee determines the appropriate level of grant of RSP Awards for participants. When determining the size of any individual grant, the remuneration committee, as far as possible, takes into account the likely impact of dividend enhancement, as described below. Where a participant is required to bear the cost of his employer's National Insurance Contributions on his RSP Award, the number of shares under his award may, at the discretion of the remuneration committee, be increased to reflect this subject to any limits imposed by the remuneration committee as referred to above.

2.5 Dividend enhancement

The number of shares that vest under a RSP Award is increased to reflect the value of dividends paid on shares during the vesting period.

2.6 Release or exercise of RSP Awards

Subject to satisfaction of any vesting conditions, RSP Awards vest three years after the date of their grant. Vested share awards are released to participants automatically within 30 days of the date the shares vest. Vested share options are exercisable up until the tenth anniversary of the date of grant, after which they will lapse. Vested forfeitable shares cease to be subject to the risk of forfeiture on vesting.

RSP Awards normally only vest if the participant remains in employment with the Company or any of its subsidiaries. If a participant leaves the Company's employment during the vesting period, vested and unvested parts of RSP Awards will normally lapse or will be forfeited. However, if the reason for leaving is death, injury, disability, ill health, redundancy or any other reason at the remuneration committee's discretion, RSP Awards will vest on the normal vesting date, subject to a time pro rating reduction (based on the total number of complete months from the date of grant to the cessation of employment relative to a period of 36 months). Alternatively, the remuneration committee may, in its absolute discretion, determine that RSP Awards should vest on the date of the cessation of employment, subject to a time pro rating adjustment. In either circumstance, the remuneration committee may determine that the pro rating reduction should not apply at all or should apply to a lesser extent. In the event of a participant's death, a RSP Award will vest and the shares may be released or acquired by his or her personal representatives within 12 months of such event.

2.7 Corporate events

In the event of a change of control, scheme of arrangement or voluntary winding-up of the Company, unvested RSP Awards will vest subject to a time pro rating reduction based on the number of complete months from the date of grant to the date of the relevant event relative to a period of 36 months. The remuneration committee may, in its discretion, disapply the application of time pro rating or determine that time pro rating should apply to a lesser extent. The remuneration committee may also allow or require RSP Awards to be exchanged for equivalent awards over shares in any acquiring company. In the event of an internal reorganisation which involves the creation of a new holding company, RSP Awards will not vest and will be replaced by equivalent awards over shares in the new holding company.

If a demerger, special dividend or other similar event or transaction occurs, which would affect the market value of the Company's shares to a material extent, then the remuneration committee may determine that RSP Awards will vest as on a change of control.

3 THE BONUS SHARE PLAN

3.1 Overview

The BSP was adopted on 2 July 2009 by the Board, and approved by its shareholders with effect from 2 September 2009. The BSP was designed to reward selected employees for their efforts and performance during the process of the Acquisition. Subject to 6.4 below, ("Overall Plan Limits"), BSP Awards may be granted over a maximum of 500,000 shares. An eligible employee may be granted a conditional share award (which entitles a participant to acquire or receive shares for no or only a nominal payment), a share option to acquire shares at a nil or nominal exercise price, an allocation of shares which may be forfeited in certain circumstances or any combination of them (each a "BSP Award"). Shares may also be allocated through a trust arrangement as described below. Allocations have been made in respect of 443,750 Class B Shares. No further BSP Awards or allocations are intended to be made under the BSP.

3.2 Eligibility

All the Company's employees, including its Executive Directors and those of its subsidiaries are eligible to participate in the BSP at the discretion of the remuneration committee. The Executive Directors and selected Senior Managers have been invited to participate in the BSP.

3.3 Grant of BSP Awards

Subject to any applicable dealing restrictions, the remuneration committee may grant BSP Awards under the BSP at any time while the Company is listed on Euronext Amsterdam.

Where a BSP Award takes the form of forfeitable shares, payment of the nominal value of the shares comprised in the BSP Award may be required for the grant of a BSP Award. In all other circumstances, no payment is required for the grant of a BSP Award.

3.4 Release or exercise of BSP Awards

BSP Awards are not subject to performance conditions. The vesting period for BSP Awards is two years after the date of their grant. Vested share awards are released to participants automatically within 30 days of the date the shares vest. Vested share options are exercisable up until the tenth anniversary of the date of grant, after which they lapse. Vested forfeitable shares cease to be subject to the risk of forfeiture on vesting.

BSP Awards will normally only vest if the participant remains in employment with the Company or any of its subsidiaries. If a participant leaves the Company's employment during the vesting period, the BSP Award will normally lapse or be forfeited. However, if the reason for leaving is injury, disability, ill health, redundancy or any other reason at the remuneration committee's discretion, BSP Awards will not lapse but will vest in full on the date of cessation of employment. In these circumstances, where a BSP Award takes the form of forfeitable shares, the remuneration committee may require a participant to transfer the shares comprised in his BSP Award to the Company or to its order in consideration of the market value of the shares at the date of transfer.

In the event of a participant's death, a BSP Award will vest and the shares may be released or acquired by his or her personal representatives within twelve months of such event and may also be required by the remuneration committee to be transferred on the basis referred to above.

3.5 Corporate events

In the event of a change of control, scheme of arrangement or voluntary winding-up, BSP Awards will vest in full at the time of the relevant event. The remuneration committee may also allow or require BSP Awards to be exchanged for equivalent awards over shares in the acquiring company. In the event of an internal reorganisation which involves the creation of a new holding company, BSP Awards will not vest and will be replaced by equivalent awards over shares in the new holding company.

If a demerger, special dividend or other similar event or transaction occurs that would affect the market value of a share to a material extent, then the remuneration committee may determine that BSP Awards will vest in full or in part as on a change of control.

3.6 Allocation to a trust

The BSP also provides that, at any time prior to Admission, Shares may be issued to an employee benefit trust with a recommendation to the trustee that it allocate Shares to eligible employees or to their family trusts having regard to the vesting terms of the BSP (including the vesting period and relevant leaver provisions) as each may apply from time to time. 500,000 Class B Shares have been issued to the employee benefit trust for use in this way. To date recommendations have been made to the trustee in respect of 443,750 Class B Shares. No further recommendations are proposed to be made in relation to the BSP.

4 THE SHARESAVE SCHEME

4.1 Overview

The Sharesave Scheme was adopted on 2 July 2009 by the Board, and approved by its shareholders with effect from 2 September 2009. The Sharesave Scheme enables tax-favoured options to be granted over shares to UK resident employees. The Sharesave Scheme was approved by HMRC on 24 December 2009 and as a result invitations to eligible employees were issued on 4 January 2010 with options being granted on 22 January 2010 to 834 eligible employees over a total of 1,159,069 Ordinary Shares.

4.2 Eligibility

All of the Company's employees and full-time Directors who are UK resident taxpayers are eligible to participate provided that the remuneration committee may require any such person to have completed a qualifying period of employment of up to five years. For the 2010 invitation all UK based staff, including Executive Directors, employed on 30 November 2009, were invited to participate in the Sharesave Scheme. The remuneration committee may allow other employees to participate. Employees who have or have had more than a 25 per cent. interest in the Company's share capital will be ineligible to participate.

4.3 Grant of options

Options can only be granted to employees who enter into an approved savings contract with a designated bank or building society, under which monthly savings are made as deductions from pay. The participant must select the date on which his or her savings will be repaid to him (the maturity date) which may be three, five or seven years after the start of the contract provided that the Board may choose to offer only one or more of those repayment dates.

Invitations to participate in the Sharesave Scheme may be issued only during the period of 42 days commencing on any of the following: the approval of the Sharesave Scheme by HMRC; the day following the announcement of the Company's results for any financial period; any changes to the legislation affecting savings-related share option schemes being announced, made or coming into effect; or a resolution by the Directors that exceptional circumstances have arisen which justify the grant of options (including, without limitation, Admission).

4.4 Individual limits

A participant's aggregate monthly savings under all savings contracts linked to options granted under any sharesave scheme must not exceed the statutory maximum (currently £250). The remuneration committee can set a lower limit in relation to any particular grant.

The number of shares over which an option is granted is such that the total exercise price payable will correspond to the proceeds on maturity of the related savings contract (i.e., the total savings plus accrued interest).

4.5 Exercise price

The price per share payable upon the exercise of an option must not be less than 80 per cent. of the market value of a share on a date which is determined by the Board (but which may be earlier than 30 days prior to the date of grant or 42 days if applications for options are scaled down where this is an oversubscription for options). If the option is granted over Ordinary Shares which are admitted to trading on the London Stock Exchange, market value will be the average of the middle market quotations of such a share on the relevant exchange for the three consecutive dealing days immediately prior to the applicable valuation date. If the option relates to new issue shares, the exercise price must not be less than the nominal value of a share.

4.6 Exercise of options

Options are normally only exercisable during the six-month period following the maturity date of the relevant savings contract. Earlier exercise is permitted if the participant leaves employment in certain specified circumstances, otherwise options will lapse on the cessation of employment.

Options granted under the Sharesave Scheme are not subject to performance conditions.

4.7 Leaving employment

Options lapse on cessation of employment with the Company or any subsidiary of the Company which has been nominated by the board as a participating company for the purposes of the Sharesave Scheme unless the participant ceases employment for a specified reason. The participant may exercise options within six months of ceasing employment by reason of injury or disability, redundancy, retirement on reaching age 60 or the age at which a participant is bound to retire under his or her employment, the sale of the business or subsidiary company in which the participant is employed or, if the option has been held for at least three years, ceasing employment for any other reason. A participant may exercise his or her options within six months of reaching age 60 even though he or she does not leave employment. The personal representatives of a participant who dies may exercise his or her options within 12 months of the date of his or her death or if he or she dies within six months after the maturity of the relevant savings contract, 12 months from that maturity.

4.8 Corporate events

In the event of a change of control of the Company as a result of a general offer, or if a court approves a compromise or scheme of arrangement of the Company, or if there is a winding-up, options will become exercisable within limited specified periods of such events to the extent that they are exercisable with accrued savings. The Company will notify participants of the relevant corporate event so as to enable them to exercise their options or take other action. Alternatively, participants may be offered equivalent new options over shares in a new holding company in exchange for their existing options.

5 THE SHARE INCENTIVE PLAN

5.1 Overview

The SIP was adopted on 2 July 2009 by the Board, and approved by its shareholders with effect from 2 September 2009. The SIP has not yet been submitted to HMRC for approval. Following receipt of HMRC approval, the acquisition of Shares under the SIP may attract tax-favoured treatment for UK resident employees. To date the Company has not made any invitations for employees to participate in the SIP.

5.2 Eligibility

All of the Company's employees who are UK resident taxpayers would be eligible to participate in the SIP provided they satisfy any minimum service requirement that is imposed. The Company may set a minimum service requirement but that requirement cannot exceed 18 months' service. When the SIP is operated, all eligible employees must be invited to participate on similar terms.

5.3 Awards

In summary, the SIP allows participants to acquire shares under the terms of three types of awards: (i) an award of free shares ("Free Shares"); (ii) the opportunity for employees to purchase shares with deductions from their pre-tax salary ("Partnership Shares"); and (iii) an award of free shares ("Matching Shares") to those employees who have purchased Partnership Shares.

These elements may be operated individually or in conjunction with each other except that Matching Shares may only be awarded in conjunction with Partnership Shares. In addition, employees can be required or allowed to reinvest dividends paid on their Free Shares, Partnership Shares and Matching Shares in further shares ("Dividend Shares"). Any shares acquired under the SIP must be held in a special trust on participants' behalf for a minimum period of time.

5.4 Free Shares

The Company may provide Free Shares to eligible employees up to a maximum value set from time to time by HMRC. The current maximum value is £3,000 per employee per annum. If the Company wishes, the award of Free Shares can be based on the achievement of personal, team, divisional or corporate performance targets which must be notified to all relevant employees. Otherwise, Free Shares must be awarded to eligible employees on the same terms subject only to variation according to an employee's remuneration, length of service or hours worked.

5.5 Partnership Shares

The Company may provide eligible employees with the opportunity to acquire Partnership Shares from their pre-tax salary up to a maximum value set from time to time by HMRC, currently the lesser of £1,500 per annum or 10 per cent. of salary. Salary for these purposes includes base salary and any bonus. The Company may set a minimum monthly deduction that may not be greater than £10. Shares are acquired on behalf of employees within 30 days after each deduction at a price equal to the market value of such shares on the date they are acquired. Alternatively, deductions can be accumulated for up to 12 months. In this case, shares are acquired on behalf of employees within 30 days of the end of the accumulation period, at the lower of the market value of the shares on the date the accumulation period commenced and the date the shares are acquired.

5.6 Matching Shares

The Company may award Matching Shares to those eligible employees who have purchased Partnership Shares. The Matching Shares must be offered on the same basis to all employees in such ratio as the Company may determine, but that ratio may not exceed two Matching Shares for every one Partnership Share purchased.

5.7 Dividend Shares

The Company may either give eligible employees the opportunity, or may require them, to re-invest dividends paid on their Free Shares, Partnership Shares and Matching Shares in further shares up to a maximum value set by HMRC. This value is currently £1,500 per annum.

5.8 Holding period

Free Shares and Matching Shares must generally be held in the SIP trust for a minimum period set by the Company, which may not be less than three years nor more than five years from the date on which such shares are allocated to employees. Partnership Shares are not subject to any specific holding period. Dividend Shares must generally be held in the SIP trust for a minimum period of not less than three years.

5.9 Leavers

The Company can provide for Free Shares and Matching Shares to be forfeited if employees cease employment with the Group within a period of up to three years from the date on which the shares were allocated other than in specified circumstances including death, redundancy, disability, injury or retirement on or after reaching age 60.

Employees may withdraw their Partnership Shares from the SIP trust at any time. However, the Company may stipulate that Matching Shares will be subject to forfeiture if the corresponding Partnership Shares are withdrawn within a specified period (not exceeding three years) of their purchase. The Company may also stipulate that Free Shares and Matching Shares may be forfeited if an employee withdraws them from the SIP trust within a specified period (not exceeding three years) from the date they were allocated. Forfeiture will not apply if the shares are withdrawn from the SIP as a result of a change of control of the Group.

5.10 Corporate events

In the event of any reconstruction or takeover of the Company, employees may direct the trustee of the SIP how to act in respect of any shares held on their behalf.

5.11 Rights issues

Whenever rights to acquire shares or other rights of any nature are granted by the Company in respect of its Ordinary Shares held in the SIP on behalf of participants, participants may instruct the trustee to take up all or part of the rights, to sell the rights and/or to allow all or part of the rights to lapse.

6 THE DEFERRED BONUS SHARE SCHEME (THE "DBSS")

6.1 Overview

Consistent with best practice guidelines, the remuneration committee has endorsed the principle of bonus deferral so that any annual bonus earned by members of the Executive Committee in excess of the target amount is delivered in shares, the vesting of which is generally contingent on continued employment for three years.

The bonus deferral is operated through the DBSS which was adopted by the remuneration committee on 1 February 2010. The DBSS allows all or part of an employee's annual bonus to be awarded on a gross of tax basis in the form of a deferred share award, which will vest subject to the employee remaining in employment during a fixed vesting period. The Company may not issue new shares to satisfy deferred share awards. Instead, it may provide monies to an employee benefit trust to enable the trust to purchase existing shares in the market to be used to satisfy the awards.

6.2 Grant and vesting of deferred share awards

Participants will be granted an award of shares having a market value equal to the gross of tax element of the annual bonus that is to be deferred. The deferred award will normally vest and become exercisable at the end of a vesting period specified by the remuneration committee at the date of grant (which may not be less than three years or longer than five years) and is generally anticipated to be three years subject to the participant's continued employment. The participant may exercise the deferred award during the six months after the end of the vesting period.

6.3 Clawback

If it is determined that a bonus to which a deferred award relates was calculated on the basis of misstated or incorrect financial information, that deferred award, to the extent that it is unvested, will lapse (unless the remuneration committee decides otherwise) in respect of such number of shares as have a value equal to the difference between the excess bonus and the bonus that would have been calculated on the basis of the restated financial information.

6.4 Cessation of employment

If a participant resigns or gives notice of his resignation or is dismissed summarily before the vesting date, his entitlement to the deferred share award will automatically lapse unless the remuneration committee, in its discretion, determines otherwise. If the remuneration committee exercises its discretion in favour of such a leaver, or if a participant's employment ceases for any other reason, the participant's deferred award will be capable of exercise during the six months following his cessation of employment (or 12 months in the event of his death). If a participant ceases employment by reason of retirement with the consent of the Company, he may exercise a deferred award during the six months following the original vesting date.

6.5 Corporate events

In the event of a takeover, scheme of arrangement or winding-up of the Company (not being an internal reorganisation) deferred share awards will vest and be exercisable for a limited period after the change of control. An internal reorganisation to create a new holding company will not result in the accelerated vesting of deferred share awards; they will be exchanged for equivalent awards over shares in the holding company and vest at the normal vesting date.

7 TERMS APPLICABLE TO ALL OF THE SHARE PLANS

The terms below apply to all the Share Plans.

7.1 Time limit for grants of options and awards

Options and awards may not be granted more than ten years after the date the Share Plans were adopted by the Company's shareholders.

7.2 Satisfaction of options and awards

Options and awards (other than deferred awards granted under the DBSS) may be satisfied by the issue of new shares or the transfer of existing shares. The shares to be used for the BSP are shares allocated to an employee benefit trust shortly after the Acquisition.

7.3 Variation of capital

In the event of any variation in the Company's share capital (including a rights issue or any sub-division or consolidation of the share capital), a demerger, a payment of a special dividend, or similar event which materially affects the market price of the shares, the number of shares under option or award and/or the price payable on the exercise of an option may be adjusted as considered appropriate by the remuneration committee.

7.4 Overall plan limits

There is an overall limit of 3,500,000 shares in the aggregate number of shares that may be issued for the purposes of the Share Plans without the requirement for further Shareholder approval. In addition, the Company may not grant options or awards under any of the Share Plans or any other share plans adopted by the Company or any other company under its control if such grant would cause the aggregate number of shares issued or issuable pursuant to options or awards granted in the preceding ten years under those plans to exceed 10 per cent. of the Company's issued ordinary share capital at the proposed date of grant.

In addition, the Company may not grant options or awards under the LTIP, the RSP, the BSP or any other discretionary share plan adopted by the Company or any other company under its control if such grant would cause the aggregate number of shares issued or issuable pursuant to options or awards granted in the preceding ten years under those plans to exceed 5 per cent. of the Company's issued ordinary share capital at the proposed date of grant.

In addition, the Company may not grant a BSP Award if such grant would cause the aggregate number of shares subject to BSP Awards to exceed 500,000 shares.

If options and awards are to be satisfied by a transfer of existing shares, the percentage limits stated above will not apply.

Any options or awards granted, or shares allocated through trust arrangements, under the Share Plans before Admission, will not be taken into account for the purposes of calculating the above limits.

7.5 Other features of options and awards

Options and awards are not transferable, except on death. Options and awards are not pensionable. Unless the remuneration committee determines otherwise, awards and options will lapse if a participant is declared bankrupt.

7.6 Rights attaching to shares

Any shares allotted when an option is exercised or an award vests will rank pari passu with shares then in issue (except for rights arising by reference to a Record Date prior to their allotment). At any time when the shares are admitted to listing on a recognised stock exchange, application will be made for any newly issued shares to be admitted to such listing and admitted to trading on the relevant exchange.

7.7 Alterations to the Share Plans

The remuneration committee may amend the Share Plans in any respect, provided that the prior approval of shareholders is obtained for any amendment to the advantage of participants to the following provisions: the individuals who may participate in the plan, the limits on the number of shares available under the plan, the maximum entitlement of participants, the basis for determining a participant's entitlement and the adjustment of options or awards on a variation of the Company's share capital.

The requirement to obtain the prior approval of shareholders does not, however, apply to any amendment to the DBSS nor to any minor amendment of the Share Plans made to benefit the administration of the Share Plans, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for eligible employees, participants or for any company in the Group. Shareholder approval is also not required for any amendment to any performance conditions, provided that any such amendment is made on the basis referred to above under "—The Long-Term Incentive Plan—Performance Conditions".

Amendments that would adversely affect subsisting rights are subject to specified limitations. Amendments to plans approved by HMRC are generally subject to the prior approval of HMRC.

The Company may modify or extend any of the Share Plans to apply in different jurisdictions, having regard to securities, exchange control and tax laws in such jurisdictions. Any such amendment must conform to the basic principles of the relevant Plan and cannot enlarge the individual or overall limits applicable to that Share Plan.

SECTION E: PENSIONS

The Group operates several different pension schemes. The two main schemes are the Pearl Group Staff Pension Scheme, (which covers employees of the Group prior to the acquisition of PGH1) and the PGL Pension Scheme, (which covers the employees of Impala's subsidiaries). Each of these two pension schemes has defined benefit sections and defined contribution sections. As at 31 December 2009, on an IAS19 basis, the Pearl Group Staff Pension Scheme had a deficit of £121 million and the PGL Pension Scheme had a deficit of £4 million.

The defined benefit section of the Pearl Group Staff Pension Scheme has 45 active members, 12,530 deferred members and 9,527 pensioners as at 31 December 2009. The defined contribution section has 246 active members and 988 deferred members.

The defined benefit section of the PGL Pension Scheme has 278 active members, 6,687 deferred members and 4,377 pensioners as at 31 December 2009. The defined contribution section has 558 active members and 1,429 deferred members.

Triennial funding valuations show higher funding deficits than valuations carried out on an IAS19 basis because the triennial valuations are calculated on a more prudent basis and at different valuation dates than those of the IAS19 results. The triennial valuation basis is agreed by the trustees and the employers whereas the IAS19 valuation result is set in part by the scheme actuary and in part by IAS requirements.

In particular, the scheme liabilities included in the triennial valuation of each scheme are calculated assuming investment returns calculated by reference to government bond yields. Under IAS19, the assumed investment return is set to the higher yield on AA-rated corporate bonds. Given the long-term nature of a scheme's liabilities, small changes in the assumed rate of investment return can have a significant impact on the value placed on the scheme's liabilities.

In addition, the IAS19 valuation of each of the schemes was calculated as at 31 December 2009 whereas the triennial valuation is performed as at 30 June 2009. Asset values recovered significantly in this period and these higher asset values are recognised in the IAS19 figures.

As regards the Pearl Group Staff Pension Scheme, the triennial valuation as at 30 June 2009 is in the process of being finalised. It is expected that this valuation will show a funding deficit of approximately £755 million. In 2009 PGH2 reached an agreement with its trustees which should govern scheme funding up to 2027. Please refer to Part XI: "Additional Information—Material Contracts—Pearl Group Staff Pension Scheme Agreements". If future triennial valuations reveal that the funding deficit of the Pearl Group Staff Pension Scheme is such that the contributions agreed under the current funding plans will not clear the revised deficit, the pension trustees may seek increased contributions from the Group. Conversely, the pension trustees may in theory reduce the Group's contributions if future triennial valuations reveal that the scheme will have excess funding.

Following the last triennial valuation of the PGL Pension Scheme as at June 2006, the participating employers agreed to pay contributions in aggregate of £15 million per year to the scheme for five years up to 2012. The triennial valuation as at 30 June 2009 is in the process of being prepared.

Initial indications are that, when finalised, the triennial valuation will show a deficit which will be substantially greater than the deficit resulting from the last triennial valuation, which may lead to increased funding contributions having to be made by the Group. Once the triennial valuation is agreed the Group has until September 2010 to agree a new funding level with the trustees of the PGL Pension Scheme. If the Group and the trustees cannot agree such increased contributions, in due course, the Pensions Regulator has statutory power to fix the contribution rate. Separately to the statutory requirement to agree contributions, under the trust deed and rules of the PGL Pension Scheme there is an ability for the scheme actuary to demand increased contributions. If future triennial valuations reveal that the funding deficit of the PGL Pension Scheme is such that the contributions agreed under the funding plans will not clear the revised deficit, the pension trustees may seek increased contributions from the Group. Conversely, the pension trustees may in theory reduce the Group's contributions if future triennial valuations reveal that the scheme will have excess funding.

In line with many other employers with defined benefit schemes the Group has recently decided to undertake a formal review of both the Pearl Group Staff Pension Scheme and the PGL Pension Scheme. As both the Pearl Group Staff Pension Scheme and the PGL Pension Scheme have funding deficits there is a significant risk that the funding levels in both schemes will continue to be volatile in future and the costs disproportionately high if both schemes continue in their current form. This review will consider ways of mitigating this financial risk and volatility going forward.

In addition, the Group has a matching stakeholder pension scheme, which was set up for staff who were employed by Abbey plc at the time of the Abbey Acquisition and were members of an existing Abbey stakeholder scheme, and the AXA GPP Pension Scheme, which was put in place for certain of the Group's London based employees.

These four pension schemes above allow for a lump sum death in service payment of four times annual basic salary at the date of death; certain schemes may also provide a spouse's pension. The Group also offers a death in service benefit of two times annual basic salary for all non-pension scheme members.

The Group also has another defined benefit scheme, the Scottish Provident Staff Pension Scheme for Employees in the Republic of Ireland (the "Scottish Provident Pension Scheme"). The Scottish Provident Pension Scheme transferred to Resolution as part of the Abbey Acquisition in September 2006, and was already closed to new members at this date. On 31 December 2009 the Dublin business of Phoenix Ireland was outsourced to Percana International Managed Services Limited and as a result of the transfer, there are now no active members in the Scottish Provident Pension Scheme.

As at 31 December 2009, in a preliminary assessment of future contribution requirements, the Scottish Provident Pension Scheme actuaries estimated that the likely annual contribution requirement by PGMS (Ireland) would be approximately €365,000 per annum over the next ten years.

The total amounts set aside or accrued by the Group to provide pension, retirement or similar benefits to the Directors and Senior Managers in the year ended 31 December 2009 were £171,636.

PART XI: ADDITIONAL INFORMATION

1 INCORPORATION AND SHARE CAPITAL

1.1 Incorporation

Phoenix Group Holdings (defined above as the "Company"), previously named Liberty International Acquisition Company, Liberty Acquisition Holdings (International) Company and Pearl Group, was incorporated under the laws of the Cayman Islands with registered Number 202172 as an exempted company with limited liability on 2 January 2008.

(a) On 13 February 2008, the Company changed its name to Liberty Acquisition Holdings (International) Company. On 2 September 2009, the Company changed its name to Pearl Group. On 15 March 2010, the Company changed its name a further time to Phoenix Group Holdings.

(b) The Company's registered office is at c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its principal place of business is at 1st Floor, 32 Commercial Street, St. Helier, Jersey, JE2 3RU, Channel Islands. The telephone number is +44 1534 715430.

(c) The principal legislation under which the Company operates is the Companies Law and the Shares are issued pursuant to the terms of the Articles of Association and the Companies Law.

1.2 Share capital

(a) History

The share capital history of the Company is as follows:

The Company was incorporated with an authorised share capital of €30,100, divided into 300,000,000 Ordinary Shares and 1,000,000 preferred shares, each having a par value of €0.0001.

On incorporation, 1 Ordinary Share was issued for €0.0001 to Maples Corporate Services Limited and subsequently transferred to a third party on 4 January 2008 before being purchased by the Company on 15 January 2008.

On 4 January 2008, 1 Ordinary Share was issued and allotted for €0.0001 before being purchased by the Company on 15 January 2008.

On 10 January 2008, 20,125,000 Ordinary Shares were issued and allotted.

On 15 January 2008, 2 Ordinary Shares were repurchased by the Company.

On 7 February 2008, 2,875,000 Ordinary Shares were repurchased by the Company.

On 13 February 2008, an additional 60,000,000 Ordinary Shares were issued and allotted by the Company pursuant to its initial public offering.

On 11 March 2008, 2,250,000 Ordinary Shares were automatically redeemed by the Company.

By resolution of the Company's members passed on 24 July 2009, on 2 September 2009 the authorised share capital of the Company was decreased from €30,100, divided into 300,000,000 Ordinary Shares and 1,000,000 preferred shares, each having a par value of €0.0001, to €30,000, divided into 300,000,000 Ordinary Shares of a par value of €0.0001 each.

By resolution of the Company's members passed on 24 July 2009, on 2 September 2009 the authorised share capital of the Company was increased from €30,000, divided into 300,000,000 Ordinary Shares of a par value of €0.0001, to €41,000, divided into 300,000,000 Ordinary Shares and 110,000,000 Class B Ordinary Shares each having a par value of €0.0001.

On 2 September 2009, the Company issued and allotted 49,770,000 Class B Ordinary Shares and 7,499,997 Ordinary Shares, the Company repurchased 63,600 Ordinary Shares and the Company redeemed 5,974,744 Ordinary Shares.

On 5 January 2010, the Company issued and allotted 3,969,079 Ordinary Shares pursuant to the exchange invitation for the Ordinary Warrants. On 13 January 2010, the Company issued and allotted 147,925 Class B Shares, and on 15 January 2010, the Company issued and allotted a further 1,937,198 Class B Shares, both issues being pursuant to the exchange invitation for the Company's insider warrants. On 31 March 2010, the Company issued and allotted a further 177,000 Class B Shares, pursuant to Ron Sandler's letter of appointment.

Since 31 March 2010 there have been no changes in the share capital of the Company.

Subject to the Amended Contingent Rights Agreements being entered into by all parties thereto, the Resolutions being passed at the AGM, the resolution being passed at the Class Meeting and the Fourth Articles of Association (as defined below in "—Memorandum and Articles of Association") being adopted:

- the Company's authorised share capital will be €41,000, divided into 410,000,000 Ordinary Shares of a par value of €0.0001;
- all Class B Shares will be re-designated into Ordinary Shares; and
- immediately prior to Admission, the Company will allot and issue 32,400,000 Ordinary Shares to the holders of the Contingent Rights. As further described in "—Material Contracts—Amended Contingent Rights Agreements".

If one or more of the following should occur: the Amended Contingent Rights Agreements are not entered into by all parties thereto, the Resolutions are not passed at the AGM, the resolution is not passed at the Class Meeting or the Fourth Articles of Association (as defined below in "—Memorandum and Articles of Association") are not adopted:

- the Company's authorized share capital will remain €41,000, divided into 300,000,000 Ordinary Shares of a par value of €0.0001 and 110,000,000 Class B Shares of a par value of €0.0001;
- certain of the Class B Shares may be re-designated into Ordinary Shares at the option of holders pursuant to the terms of the Third Articles of Association; and
- the Company will remain obligated to allot and issue Ordinary Shares pursuant to the Contingent Consideration Agreement, the Contingent Fee Agreement and the Contingent Subscription Agreement.

For more information, see Part IV: "Information on the Group—Section A: The Company—Capital Structure".

(b) The New Shares

The New Shares are being created by:

- the re-designation of 52,032,123 Class B Shares into Ordinary Shares; and
- the allotment and issue of 32,400,000 Ordinary Shares pursuant to the Amended Contingent Rights Agreements.

The New Shares will be pari passu in all respects with the existing Ordinary Shares from their date of issue. The issue of New Shares will result in existing holders of Ordinary Shares and Class B Shares (taken together on the basis that the Class B Shares will be re-designated as Ordinary Shares) being diluted by approximately 20 per cent.

(c) Authorised share capital

Immediately prior to the publication of this document, the authorised share capital of the Company was €41,000, comprising 300,000,000 Ordinary Shares of €0.0001 each and 110,000,000 Class B Shares of €0.0001 each, of which 132,462,855 Shares were issued (all of which were fully paid or credited as fully paid).

Subject to the Amended Contingent Rights Agreements being entered into by all parties thereto, the Resolutions being passed at the AGM, the resolution being passed at the Class Meeting and the Fourth Articles of Association (as defined below in "—Memorandum and Articles of Association") being adopted, the Company's authorised share capital will be €41,000, divided into 410,000,000 Ordinary Shares of a par value of €0.0001.

(d) Outstanding Class B Shares, Ordinary Warrants, Royal London Warrants, Lender Warrants, share scheme options and unissued and unreserved share capital

As at 3 June 2010 (being the latest practicable date prior to publication of this Prospectus) there were outstanding 52,032,123 Class B Shares, 8,169,868 Ordinary Warrants, 12,360,000 Royal London Warrants, 5,000,000 Lender Warrants and 2,823,000 Ordinary Shares will be reserved for issue in respect of the exercise of options granted under the share schemes described in Part X: "Directors, Senior Management and Employees—Section D: Employee Incentive Plans" and "—Section E: Pensions" which, together with the Contingent Rights over shares entered into by the Company, and subject to the terms and conditions of such instruments as set out below, could result in a total of 116,384,991 new Ordinary Shares being issued.

Subject to the passing of the Resolutions at the AGM and the resolution at the Class Meeting there will be no outstanding Class B Shares, 8,169,868 Ordinary Warrants, 12,360,000 Royal London Warrants, 5,000,000 Lender Warrants, 3,600,000 Contingent Rights and 2,823,000 Ordinary Shares will be reserved for issue in respect of the exercise of options granted under the share schemes described in Part X: ''Directors, Senior Management and Employees—Section D: Employee Incentive Plans'' and ''—Section E: Pensions'', which together and subject to the terms and conditions of such instruments as set out below in ''—Warrants—Ordinary Warrants'', ''—Warrants—Royal London Warrants'' and ''—Warrants—Lender Warrants'' and ''—Material Contracts—Amended Contingent Rights Agreements'', could result in a total of 31,952,868 new Ordinary Shares being issued. Accordingly, immediately following Admission, 213,184,277 Ordinary Shares, representing approximately 52 per cent. of the Company's authorised share capital will remain unissued and unreserved.

(e) Share or loan capital

Save as disclosed above and in ''—Related Party Transactions'', ''—Major Shareholders'' ''—Material Contracts'' and ''—Takeovers'' below, and in Part X ''Directors, Senior Management and Employees'' of the document:

(a) no share or loan capital of the Company, other than intercompany loans, has, since the date of incorporation of the Company on 2 January 2008, been issued or agreed to be issued, or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash, to any person;

(b) no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital of any such company; and

(c) no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

(f) Description of the Company's Share Capital and Warrants

Set out below is a description of the Ordinary Shares, the Class B Shares, the Warrants (including the Ordinary Warrants, Royal London Warrants and Lender Warrants), and summaries of certain provisions of the Articles of Association. Also provided is a summary of the Contingent Rights over Shares.

(i) Ordinary Shares

Shareholders have voting rights for the election of the Directors and all other matters requiring shareholder action. Shareholders are entitled to one vote per share on matters to be voted on by shareholders and also are entitled to receive such dividends, if any, as may be declared from time to time by the Board in its discretion out of funds legally available therefore. There is no cumulative voting with respect to the election of Directors, with the result that the holders of more than 50 per cent. of the shares voted for the election of Directors can elect all of the Directors.

The shareholders have no conversion, pre-emptive or other subscription rights, and there are no sinking fund or redemption provisions applicable to the shares, except that (i) the Lender Shareholders and Sellers have pre-emptive rights under the Lender Relationship Agreement and the Sellers' Relationship Agreement, and (ii) the Class B Shares are convertible into Ordinary Shares.

The Ordinary Shares are in registered form and may be held in certificated form or in uncertificated form as Depositary Interests in CREST.

Subject to the passing of the Resolutions at the AGM and the resolution at the Class Meeting and the adoption of the Fourth Articles of Association, all Ordinary Shares will have pre-emption rights as further detailed in ''—Memorandum and Articles of Association—Fourth amended and restated memorandum and articles of association''.

(ii) Class B Shares

Except as described below, the Class B Shares have the same rights and restrictions, and rank pari passu in all respects with the Ordinary Shares.

The Class B Shares are convertible on a one-for-one basis, by variation of rights and re-designation, into Ordinary Shares, subject to compliance with applicable laws, including the rules and regulations of any investment exchange on which the Ordinary Shares are admitted to trading. However, those Class B Shares classified as Claim Reimbursement Shares will not be so convertible prior to the expiration date by which a claim must be brought by the Company against a shareholder in respect of the warranties under the Pearl SPA. Following the Claim Date, Claim Reimbursement Shares will be convertible except for such Claim Reimbursement Shares with an aggregate value equal to any unresolved claims made under the warranties pursuant to the Pearl SPA made prior to the Claim Date. The Claim Reimbursement Shares are subject to mandatory redemption by the Company pursuant to the terms of the Articles of Association in certain circumstances in connection with claims payable under the Purchase Agreements.

At any time after Class B Shares have become convertible into Ordinary Shares in accordance with the Articles of Association and subject to the terms of the Purchase Agreements, a holder of Class B Shares may exercise its option to convert by giving written notice to the Company. Upon receipt of such written notice:

(i) the Class B Shares will automatically convert into Ordinary Shares by way of variation of rights and re-designation; and

(ii) if the Ordinary Shares are admitted to trading on any exchange, the Company will make an application for the Ordinary Shares resulting from such variation of rights and re-designation to be admitted to trading on such investment exchange as soon as practicable.

For the period of one year following the Acquisition the Class B Shares classified as Purchase Agreement Shares are subject to certain disposal restrictions as set out in the Articles of Association and the Pearl SPA, save that a relevant shareholder may sell up to 50 per cent. of such Purchase Agreement Shares to pay tax arising out of the receipt of shares.

For the purposes of a separate class meeting, the Board may treat two or more of all the classes of shares as forming one class if the Board considers that such classes would be affected in the same way by the proposals under consideration, but in any other case shall treat them as separate classes.

Subject to the passing of the Resolutions at the AGM and of the resolution at the Class Meeting, including the adoption of the Fourth Articles of Association and the re-designation of the Class B Shares into Ordinary Shares, there will be no Class B Shares or Claim Reimbursement Shares.

(g) Warrants

(i) Ordinary Warrants

Each Ordinary Warrant entitles the registered holder to purchase one Ordinary Share at a price of €11.00 per share, subject to adjustment as discussed below.

The Ordinary Warrants will expire at the close of trading on Euronext (5:30 p.m., Central European Time) on the five-year anniversary of the closing date of the Acquisition or earlier upon redemption or liquidation.

The Company may call the Ordinary Warrants for redemption (i) in whole but not in part; (ii) at a price of €0.01 per warrant; (iii) upon not less than 30 days' prior written notice of redemption to each warrant holder; and (iv) if, and only if, the reported last sale price of the share equals or exceeds €16.50 per share on each of 20 trading days within any 30 trading day period ending on the third business day prior to the notice of redemption to warrant holders.

If the foregoing conditions are satisfied and the Company issues notice of redemption of the Ordinary Warrants, each warrant holder shall be entitled to exercise its warrant prior to the scheduled redemption date and will have the option to do so on a "cashless basis". However, the price of the shares may fall below the redemption trigger price or the warrant exercise price after the redemption notice is issued.

If the Company calls the Ordinary Warrants for redemption as described above, the Company will have the option to require any holder to exercise its warrant on a "cashless basis". If the Company takes advantage of this option, or if a warrant holder chooses to exercise its warrant on a "cashless basis" after the Company issues notice of redemption, the exercise price would be paid by a warrant holder surrendering its Ordinary Warrants for that number of Ordinary Shares equal to the quotient obtained by dividing (x) the product of the number of Ordinary Shares underlying the Ordinary Warrants, multiplied by the difference between the exercise price of the Ordinary Warrants and the "fair market value" (defined below) by (y) the fair market value. The "fair market value" shall mean the average reported last sale price of the Ordinary Shares for the ten consecutive trading days ending on the third trading day prior to the date on which the notice of redemption is sent to the holders of Ordinary Warrants. If the Company takes advantage of this option, the notice of redemption will contain the information necessary to calculate the number of Ordinary Shares to be received upon exercise of the Ordinary Warrants, including the "fair market value" in such case. Requiring a cashless exercise in this manner will reduce the number of shares to be issued and thereby lessen the dilutive effect of a warrant redemption.

The exercise price and number of Ordinary Shares issuable on exercise of the Ordinary Warrants may be adjusted in certain circumstances including in the event of a share dividend, sub-division of shares, reverse share split or a recapitalisation, reorganisation, merger or consolidation. However, the number of Ordinary Shares issuable on exercise of the Ordinary Warrants will not be adjusted for issuances of Ordinary Shares at a price below the warrant exercise price.

The Ordinary Warrants are in registered form and may be held in certificated form or in uncertificated form as Depositary Interests in CREST. The Company does not intend to provide post-issuance information on the Ordinary Warrants, save as required under the Disclosure and Transparency Rules, the Listing Rules and the rules promulgated under DFSA.

The Ordinary Warrants have been created under, and their terms are governed by, the laws of the Cayman Islands.

The terms of the Ordinary Warrants were amended by the Company and the Warrant agent pursuant to the terms of the amended and restated warrant agreement dated 2 September 2009, to provide for the Ordinary Warrants to be listed on exchanges other than Euronext Amsterdam.

(ii) Royal London Warrants

Royal London holds transferable warrants to purchase 2,000,000 Class B Shares and non-transferable warrants to purchase 10,360,000 Class B Shares. The non-transferable warrants and the transferable warrants issued to Royal London are identical in all respects other than the fact that the non-transferable warrants can only be transferred to subsidiaries of Royal London while the transferable warrants are freely transferable subject to applicable law.

Each Royal London Warrant entitles the holder to purchase one Class B Share at a price of €11.00 per share, subject to adjustment as discussed below. The holder of the Royal London Warrants may elect to exercise the warrant and pay the exercise price by assigning to the Company an amount of outstanding principal and/or accrued but unpaid interest of any debt that is owed to the holder of the warrant by the Company or any member of the Group on the date the Royal London Warrants are issued and/or at any time thereafter or by paying in cash by wire transfer.

The Royal London Warrants will expire at the close of trading on Euronext (5:30 p.m., Central European Time), or such other primary exchange as the Company's Ordinary Shares are traded, on the earliest to occur of (i) the first business day following the fifth anniversary of issuance of the warrants, (ii) the date fixed for redemption of the warrants as set forth below and (iii) the liquidation of the Company.

The Company may call the warrants for redemption: (i) in whole but not in part; (ii) at a price of €0.01 per warrant; (iii) upon not less than 30 days' prior written notice of redemption to each warrant holder; and (iv) if, and only if, the last sale price of the Ordinary Shares equals or exceeds €16.50 per share on each of 20 trading days within a 30 day trading period ending on the third business day prior to the notice of redemption to warrant holders.

If the foregoing conditions are satisfied and the Company issues a notice of redemption of the warrants, each warrant holder shall be entitled to exercise its warrant prior to the scheduled redemption date. Upon a redemption the holder will have the opportunity to pay the Royal London Warrant exercise price either (i) in cash, (ii) by assigning debt in accordance with the above or (iii) by effecting a "cashless exercise" of the warrants. If the holder elects to make a cashless exercise, the holder would pay the exercise price by surrendering the warrants for that number of Class B Shares equal to the quotient obtained by dividing (x) the product of the number of Class B Shares underlying the warrants, multiplied by the difference between the exercise price of the warrants and the fair market value by (y) the fair market value. For this purpose, "fair market value" means the average reported last sale price of the Ordinary Shares for the ten consecutive trading days ending on the third trading day prior to the date on which the notice of redemption is sent to the holders of the warrants.

The exercise price and number of Class B Shares issuable on exercise of the Royal London Warrants may be adjusted in certain circumstances including in the event of a share dividend, sub-division of shares, reverse share split or a recapitalisation, reorganisation, merger or consolidation. However, the number of Class B Shares issuable on exercise of the Royal London Warrants will not be adjusted for issuances of shares at a price below the warrant exercise price.

The Royal London Warrants have been created under, and their terms are governed by, the laws of the Cayman Islands.

Following the listing of the Ordinary Shares on the main market of the London Stock Exchange, Royal London are entitled to receive Ordinary Shares upon the exercise of the Royal London Warrants.

(iii) Lender Warrants

The Lenders hold warrants to purchase 5,000,000 Class B Shares.

Each Lender Warrant entitles the holder to purchase one Class B Share at a price of £15.00 per share, subject to adjustment as discussed below. The holder of the Lender Warrants may elect to exercise the warrant and pay the exercise price either in cash or by assigning to the Company an amount of outstanding principal and/or accrued but unpaid interest of any debt that is owed to the holder of the Lender Warrant by the Company or any subsidiary of the Company.

The Lender Warrants will expire at the close of trading on Euronext (5:30 p.m., Central European Time), or such other primary exchange on which the Company's Ordinary Shares are traded, on the earliest to occur of (i) the first business day following the fifteenth anniversary of issuance of the Lender Warrants, (ii) the date fixed for redemption of the Lender Warrants as set forth below and (iii) the liquidation of the Company.

The Company may call the Lender Warrants for redemption: (i) in whole but not in part; (ii) at a price of €0.01 per Lender Warrant, (iii) upon not less than 30 days' prior written notice of redemption to each Lender Warrantholder; and (iv) if, and only if, the last sale price of the Ordinary Shares equals or exceeds £19.50 (or the euro equivalent of that price) per share for any 20 consecutive trading days during the exercise period.

If the foregoing conditions are satisfied and the Company issues a notice of redemption of the Lender Warrants, each Lender Warrantholder shall be entitled to exercise its warrant prior to the scheduled redemption date. Upon a redemption, the holder will have the opportunity to effect a cashless exercise of the Lender Warrants. If the holder elects to make a cashless exercise, the holder would pay the exercise price by surrendering the Lender Warrants for that number of Class B Shares equal to the quotient obtained by dividing (i) the product of the number of Class B Shares underlying the Lender Warrants multiplied by the difference between the exercise price of the Lender Warrants and the fair market value by (ii) the fair market value. For this purpose, "fair market value" means the average reported last sale price of the Ordinary Shares for the ten consecutive trading days ending on the third trading day prior to the date on which the notice of redemption is sent to the holders of the Lender Warrants.

The exercise price and number of Class B Shares issuable on exercise of the Lender Warrants may be adjusted in certain circumstances including in the event of a share dividend, sub-division of shares, reverse share split or a recapitalisation, reorganisation, merger or consolidation, provided that the Company shall not do anything that would give rise to an adjustment which would cause the exercise price of the Lender Warrants to be reduced to an amount that is less than the nominal value of a Class B Share.

The Lender Warrants have been created under, and their terms are governed by, the laws of the Cayman Islands.

Following the listing of the Ordinary Shares on the main market of the London Stock Exchange, the Lenders are entitled to receive Ordinary Shares upon the exercise of the Lender Warrants.

(h) Contingent Rights over Shares

Subject to the Amended Contingent Rights Agreements being entered into by all parties thereto, the Resolutions being passed at the AGM, the resolution being passed at the Class Meeting and the Fourth Articles of Association (as defined below in "—Memorandum and Articles of Association") being adopted, up to 36,000,000 Ordinary Shares are to be allotted and issued to the holders of Contingent Rights pursuant to the terms of the Amended Contingent Rights Agreements (described in "—Amended Contingent Rights Agreements"). If the Resolutions are not passed at the AGM, the holders of Contingent Rights would have the right to be allotted and issued up to 36,000,000 Ordinary Shares pursuant to the Contingent Consideration Agreement, the Contingent Fee Agreement and the Contingent Subscription Agreement (described in "—Material Contracts"), subject to the satisfaction of the criteria set out therein. If such Ordinary Shares are allotted and issued, the Company would intend to make an application for such Ordinary Shares to be admitted to (i) a standard listing on the Official List and trading on the main market of the London Stock Exchange and (ii) listing and trading on Euronext Amsterdam, following publication of a new prospectus in respect thereof.

1.3 CREST and Depositary Interests

The Company will, prior to Admission, enter into depositary arrangements to enable investors to settle and pay for interests in the Ordinary Shares through the CREST system. CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Securities issued by non-UK incorporated companies, such as the Company, cannot themselves be held electronically (i.e. in uncertificated form) or transferred in the CREST system. However, depositary interests, representing the securities, can be dematerialised and settled electronically. Pursuant to arrangements to be put in place by the Company, a depositary will hold, through a custodian, the Ordinary Shares and issue dematerialised depositary interests representing the underlying Ordinary Shares which will be held on trust for the holders of the depositary interests.

In order to transition to a depositary interest structure, legal title to the Ordinary Shares will be transferred from Euroclear Nederland to the Depositary's nominated custodian and registered in the name of the custodian nominated by the Depositary (the "Custodian").

Through the Custodian, the Depositary will hold the beneficial title to the Ordinary Shares on trust for participating members to whom it will issue the dematerialised depositary interests or "Depositary Interests". The Depositary Interests will be independent securities constituted under English law which may be held and transferred through the CREST system.

The Depositary Interests will be created pursuant to and issued on the terms of a deed poll expected to be executed by the Depositary prior to Admission in favour of the holders of the Depositary Interests from time to time (the "Deed Poll"). Prospective holders of Depositary Interests should note that they will have no rights in respect of the underlying Ordinary Shares or the Depositary Interests representing them against EUI or its subsidiaries.

Although the Company's register will show the Custodian as the legal holder of the Ordinary Shares, the beneficial interest in the Ordinary Shares will remain with the Depositary Interest holder, who will have the benefit of all the rights attaching to the Ordinary Shares as if the Depositary Interest holder were named on the certificated Ordinary Share register itself.

Under the Deed Poll, the Depositary may require any holder of Depositary Interests to disclose information as to the capacity in which it owns Depositary Interests and the nature of its interests. In addition, the Disclosure and Transparency Rules will apply to holders of Depositary Interests in the same manner as if they held legal title to the Ordinary Shares represented by their Depositary Interests.

Each Depositary Interest will be treated as one Ordinary Share for the purposes of determining the rights attaching to that Depositary Interest, for example, eligibility for any dividends. The Depositary Interests will have the same security code (ISIN number) as the underlying Ordinary Shares and will not require a separate listing on the Official List. The Depositary Interests will be capable of being traded and settlement will be within the CREST system in the same way as any other CREST securities.

In respect of Ordinary Shares currently held by participants through Euroclear Nederland, the Depositary will issue Depositary Interests into a CREST account of EUI at the time the Depositary Interest structure is implemented. Interests in such Depositary Interests will then be passed from Euroclear Nederland to the relevant participants via contractual custody arrangements as required.

A participant holding interests in Depositary Interests through Euroclear Nederland will be able to elect to receive Depositary Interests directly into its own CREST account.

If a holder of a Depositary Interest wishes itself to hold legal title to the Ordinary Share represented by its Depositary Interest, it may request that the relevant Depositary Interest is removed from CREST and a share certificate is issued to it.

Application will be made for the Depositary Interests to be admitted to CREST with effect from Admission.

The documents relating to the Depositary Interests are described below in "Material Contracts—Depositary contracts".

Depositary Interests in respect of Ordinary Warrants will be created, issued and held in the same manner as Depositary Interests in respect of Ordinary Shares, as described above. When an Ordinary Warrant held in the form of a Depositary Interest is exercised it will convert into an Ordinary Share and be dematerialised into a Depositary Interest.

2 MEMORANDUM AND ARTICLES OF ASSOCIATION

The Company's current memorandum and articles of association are the third amended and restated memorandum and articles of association ("Third Articles of Association").

It is proposed that the fourth amended and restated memorandum and articles of association of the Company are adopted by special resolution of the Company's members at the AGM prior to Admission ("Fourth Articles of Association").

2.1 Third amended and restated memorandum and articles of association

Clause 3 of the memorandum in the Third Articles of Association provides that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by law as provided by the Companies Law.

The Third Articles of Association are available for inspection at the address specified in "—Documents available for inspection" below.

Set out below is a summary of the provisions of the Third Articles of Association.

(a) Issue of Securities

The Directors may divide any of the Company's shares into any number of classes and vary and determine the rights as between such different classes.

(b) Share Rights, Restrictions and Transfers

The Ordinary Shares and the Class B Shares rank pari passu in all respects, except as described in "—Incorporation and Share Capital—Share Capital—Description of the Company's Share Capital and Warrants—Class B Shares".

(c) Redemption and Repurchase of Shares

If any Seller owes an amount to the Company under the Purchase Agreements:

- he may request, as payment therefor, that the Company compulsorily redeem such number of Claim Reimbursement Shares held by him which have a value equal to the amount owed depending on the applicable share price of the Ordinary Shares and if the seller so chooses he may elect for rights to receive shares from the Company under the Contingent Consideration Agreement to be cancelled instead of Shares provided such number is equal to the number of Shares to be cancelled; and
- if no such request is made, the Company may automatically redeem such relevant number of Claim Reimbursement Shares held by him, provided that such number shall be reduced pro rata to the relinquishment of that shareholder's entitlement to contingent shares.

(d) Variation of Rights of Shares of Class B Shares

Any variation of the rights attached to the Class B Shares with respect to their convertibility into Ordinary Shares can only be approved with the written consent of the holders of 90 per cent. of the issued Class B Shares or by the passing of a resolution by a majority of at least 90 per cent. of the votes cast at a separate meeting of the holders of such Class B Shares.

(e) General Meetings

All general meetings must be held outside the UK and the US. The minimum notice provisions for all general meetings are 14 days.

(f) Capitalisation

If the Company is required to issue any shares pursuant to the Contingent Consideration Agreement, the Contingent Fee Agreement or any "Fee Shares" pursuant to the Contingent Subscription Agreement, it shall appropriate and capitalise, as required to issue fully paid shares to relevant members, any sum standing to the credit of any of the Company's reserve accounts (including share premium account and capital redemption reserve fund) or any sum standing to the credit of its profit and loss account or otherwise available for distribution and in doing so will not be obliged to comply with the proportionality requirements usually required in respect of the appropriation of such sum in relation to the issuance of shares pursuant to the above-listed agreements.

(g) Board

The Board will be comprised of a majority of Non-Executive Directors, at least two of whom must be "independent" (as that term is defined in the Combined Code).

Alternate Directors may be appointed, provided that they are located outside the US.

At each annual general meeting, at least one-third of the Directors (including any who have been in office for three years or more) will retire from office but will be eligible for re-election.

A new Director may be appointed at a general meeting if proposed by a shareholder or recommended by the Directors.

The Board may appoint another Director to fill a vacancy or as an additional Director and such Director will hold office until the next annual general meeting at which he will put himself up for re-election.

A Director may be removed from office by, among other things, an ordinary resolution of the shareholders or a request to resign from a majority of the Directors.

The ordinary remuneration of any Non-Executive Director for his ordinary duties may not exceed £50,000 per annum (or such higher amount approved by ordinary resolution of the shareholders).

The Company will indemnify former and existing Directors and officers against liabilities incurred as a result of acting or failing to act in carrying out their duties, other than by their own actual fraud or wilful default.

(h) Proceedings of Directors

For a quorum to be present at a meeting, the majority of Directors present (including the chairman) must be physically situated outside the UK during the meeting.

For a written board resolution to be valid, the majority of all Directors must be physically situated outside the UK when signing the resolution.

For so long as independent Directors comprise less than one half of the number of Directors, no decision can be taken by the Board unless it is approved by a majority of the Directors voting and (i) a majority of the independent Directors (where the number of independent Directors is not a multiple of two) and (ii) by one half of the independent Directors (where the number of independent Directors is a multiple of two) and (iii) by the sole independent Director in the event there is only one independent Director.

The chairman must be independent and will not have a casting vote.

The chairman must approve the composition of any committee to which the Board may delegate its powers.

(i) Disclosure of Information to Regulators

Each shareholder must permit the Company and its Directors to disclose to any regulator in any country (including the FSA) any information (including confidential information) held by the Company in relation to that shareholder.

(j) Takeover Provisions

During such times as the City Code does not apply to the Company, certain of the provisions of the City Code (in particular those which are not contained in the Dutch Takeover Act and associated rules, which continue to apply to the Company after admission of the Ordinary Shares to the Official List and to trading on the main market of the London Stock Exchange) are applied as part of the Third Articles of Association, including provisions dealing with compulsory takeover offers and shareholder treatment along the lines of its general principles (including "equal treatment"), which are to be administered by the Board. The powers granted to the Board under these takeover provisions are only exercisable by those Directors who are not interested in any arrangements or transactions in connection with the event which would cause these takeover provisions to apply.

A person must not (other than as a custodian or depositary (or nominee thereof)): (i) acting by himself or with persons determined by the Directors to be acting in concert, seek to acquire shares in the Company, which carry 30 per cent. or more of the voting rights attributable to the shares in the Company; or (ii) acting by himself or with persons determined by the Directors to be acting in concert hold 30 per cent. but not more than 50 per cent. of the voting rights, and seek to acquire, by himself or with persons determined by the Directors to be acting in concert, additional shares which, taken together with the shares held by the persons determined by the Directors to be acting in concert with him, increase his voting rights, except, in either (i) or (ii) above, as a result of a "permitted acquisition" (meaning an acquisition either consented to by the Directors, or made in compliance with Rule 9 of the City Code, or arising from the repayment of a stock borrowing arrangement); or (iii) effect or purport to effect an acquisition which would breach or not comply with Rules 4, 5, 6, or 8 of the City Code, if the Company were subject to the City Code.

Where the Directors have reason to believe that any of such circumstances has taken place, they may take all or any of the following measures: (i) require the person(s) appearing to be interested in the shares of the Company to provide such information as the Directors consider appropriate; (ii) have regard to such public filings as may be necessary to determine any of the matters under this new provision; (iii) make any determination under this provision as it thinks fit either after calling for submissions by the relevant person(s) or without doing so; (iv) determine that the voting rights attached to such shares in breach of the Third Articles of Association (the "Third Excess Shares") are from a particular time incapable of being exercised for a definite or indefinite period; (v) determine that some or all of the Third Excess Shares are to be sold; (vi) determine that some or all of the Third Excess Shares will not carry any right to any dividends or other-distributions from a particular time for a definite or indefinite period; and (vii) take such actions as it thinks fit for the purposes of this provision, including prescribing rules consistent with this provision, setting deadlines for the provision of information, drawing adverse inferences where information requested is not provided, converting any Third Excess Shares held in uncertificated form into certificated form or vice-versa, paying costs and expenses out of proceeds of sale of Third Excess Shares, and changing any decision or determination or rule previously made.

The Directors will have the full authority to determine the application of this provision, including the deemed application of the whole or any part of the City Code, and such authority will include all the discretion that the Panel would exercise as if the whole or part of the City Code applied. Any resolution or determination made by any Director acting in good faith will be final and conclusive and will not be open to challenge as to its validity or as to any other ground. The Directors will not be required to give any reason for any decision or determination they make. Any Director may act as the duly appointed agent and/or attorney of any shareholder in relation to the execution of documents and other actions to be taken for the sale of the Third Excess Shares determined by the Directors under this provision.

2.2 Fourth amended and restated memorandum and articles of association

It is proposed that the Fourth Articles of Association are adopted by special resolution of the Company's members at the AGM prior to Admission.

Clause 3 of the memorandum in the Fourth Articles of Association provides that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by law as provided by the Companies Law.

The Fourth Articles of Association are available for inspection at the address specified in "Documents available for inspection" below.

Set out below is a summary of the provisions of the Fourth Articles of Association.

(a) Share rights

Subject to the provisions of the Companies Law, and without prejudice to any rights attached to any existing shares or class of shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, subject to and in default of such determination, as the Board shall determine.

(b) Voting rights

Subject to any rights or restrictions attached to any shares, every member who is present in person (or in the case of a corporation is present by a duly authorised representative) shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every share of which he is the holder.

(c) Variation of rights of Class B Shares

Any variation of the rights attached to the Class B Shares with respect to their convertibility into Ordinary Shares can only be approved with the written consent of the holders of 90 per cent. of the issued Class B Shares or by the passing of a resolution by a majority of at least 90 per cent. of the votes cast at a separate meeting of the holders of such Class B Shares.

(d) Dividends and other distributions

The Company may by ordinary resolution declare dividends (including interim dividends) in accordance with the respective rights of the members, provided that no dividend shall exceed the amount recommended by the Board.

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid except as otherwise provided by the rights attached to shares, all dividends shall be apportioned and paid proportionately according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid; but, if any share is allotted or issued on terms providing that it shall rank for dividend as from a particular date, that share shall rank for dividend accordingly.

The Board may make payments in cash or in specie and the Board may make arrangements as it sees fit to settle any difficulty with the payment.

No dividend or other moneys payable in respect of a share shall bear interest against the Company unless otherwise provided by the rights attached to the share.

The Board may, if authorised by an ordinary resolution of the Company, offer any holder the right to elect to receive shares, credited as fully paid, instead of cash in respect of the whole (or some part, to be determined by the Board) of all or any dividend specified by that resolution.

Any dividend or moneys payable in respect of the shares may be paid in any manner as the directors may determine, including by inter-bank transfer, electronic form, electronic means or other means approved by the directors directly to an account (of a type approved by the directors) nominated in writing by the member, or by cheque, warrant or other similar financial instrument made payable to the member entitled to it. Different methods of payment may apply to different members or groups of members. The directors may also decide the currency and the exchange rate for such currency.

If the directors decide that payments will be made by electronic transfer to an account (of a type approved by the directors) nominated by a member, but no such account is nominated by the member or an electronic transfer into a nominated account is rejected or refunded, the Company may credit the amount payable to an account of the Company to be held until the member nominates a valid account.

The Company shall be entitled to cease sending dividend warrants and cheques by post or otherwise to a member if those instruments have been returned undelivered to, or left uncashed by, that member on at least two consecutive occasions, or, following one such occasion, reasonable enquiries have failed to establish the member's new address. The entitlement conferred on the Company by the Fourth Articles of Association in respect of any member shall cease if the member claims a dividend or cashes a dividend warrant or cheque.

Any dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the Board so resolves, be forfeited and cease to remain owing by the Company.

(e) Variation of rights

Subject to the provisions of the Companies Law, if at any time the capital of the Company is divided into different classes of shares, the rights attached to any class of shares may (unless otherwise provided by the terms of allotment of the shares of that class) be varied or abrogated (whether the Company is being wound up or not) either with the consent in writing of the holders of three quarters in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class, but not otherwise.

(f) Lien and forfeiture

The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys payable to the Company (whether presently or not) in respect of that share. Subject to the terms of allotment, the Board may from time to time make calls on the members in respect of any moneys unpaid on their shares. If a payment is not made when due, the Board may give not less than 14 clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued and any costs, charges and expenses incurred by the Company by reason of such non payment. If that notice is not complied with, any share in respect of which it was given may, at any time before the payment required by the notice has been made, be forfeited by a resolution of the Board. The forfeiture shall include all dividends or other moneys payable in respect of the forfeited share which have not been paid before the forfeiture. The forfeited share shall be cancelled, sold, re-allotted or otherwise disposed of by the Company on such terms as the Board determines and proceeds arising from such sale shall be deemed to be the property of the Company.

(g) Transfer of shares

The instrument of transfer of a share may be in any usual form or in any other form which the Board may approve. An instrument of transfer shall be signed by or on behalf of the transferor. The Board may, in its absolute discretion and without giving any reason, refuse to register the transfer of a share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register the transfer of a share unless the instrument of transfer:

(a) is lodged, duly stamped (if liable to be stamped), at the registered office or other place appointed by the Board accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;

(b) is in respect of only one class of shares; and

(c) is in favour of not more than four transferees.

The directors may suspend the registration of transfers provided that such registration shall not be suspended for more than 45 consecutive days in any year.

If it comes to the notice of the Board that a holder or beneficial owner of any share is a person whose holdings of, or to whom a transfer of, shares or an interest in shares would subject the Company to certain negative consequences (including, but not limited to, requiring the Company to register as an investment company under the US Investment Company Act), the Board may serve notice on such persons requiring the transfer of the affected share(s) or the interst in such share(s). If the Board does not receive evidence of the transfer or is not otherwise satisfied that the requirement of the notice have been satisfied, the Company may instruct a stockbroker to sell the affected share(s).

The Board may refuse to honour any requests to transfer shares to a person whose holdings of, or to whom a transfer of, shares or an interest in shares would subject the Company to certain negative consequences (including, but not limited to, requiring the Company to register as an investment company under the US Investment Company Act).

(h) Depositary interests

Subject to the Companies Law and any applicable laws and regulations, the facilities and requirements of any relevant system concerned and the provisions of the Fourth Articles of Association, the directors have power to implement and/or approve any arrangements which they may, in their absolute discretion, think fit in relation to the evidencing of title to and transfer of depositary or similar interests, instruments or securities. To the extent that such arrangements are implemented, no provision of the Fourth Articles of Association shall apply or have effect to the extent that it is in any respect inconsistent with the holding or transfer of depositary interests or the shares in the capital of the Company represented thereby. The directors may from time to time take such actions and do such things as they may in their absolute discretion think fit in relation to the operation of any such arrangements.

If and to the extent that the directors implement and/or approve any such arrangements in relation to the evidencing of title to and transfer of depositary or similar interests in shares, then the directors shall ensure, in so far as practicable, that such arrangements provide:

(a) a holder of any such depositary or similar interests in shares with the same or similar rights as a member of the Company, including in relation to the exercise of voting rights and to the provision of information;

(b) the Company and the directors with similar powers as given under the Fourth Articles of Association in respect of a member of the Company, including the power of the board to deduct or retain any dividend or other moneys payable to any member under the Fourth Articles of Association, so that such power may be exercised against a holder of a depositary or similar interest in shares and the shares represented by such depositary or similar interest.

(i) Redeemable shares and alteration of share capital

Subject to the provisions of the Companies Law, and without prejudice to any rights attached to any existing shares or class of shares, shares may be issued which are to be redeemed or are to be liable to be redeemed at the option of the Company or the holder on such terms, conditions and in such manner as the Board may determine.

The Company may by ordinary resolution increase, consolidate and divide or, subject to the provisions of the Companies Law, sub divide its share capital. The Company may, by ordinary resolution, also cancel shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled. The Company may by special resolution reduce its share capital in any manner authorised by the Companies Law.

(j) Authority to issue shares

The directors have general and unconditional authority to exercise all powers of the Company to allot shares in the Company or to grant rights to subscribe to or to convert securities into shares in the Company up to the nominal amount equal to that, and for the period, for which they have authority in the form of an ordinary or special resolution of the members.

(k) Pre-emption rights

The Company shall not allot any equity securities for cash without first having offered them to members holding ordinary shares on a pro rata basis to the number of ordinary shares held by such member in such manner as the Board may determine.

(l) Disapplication of pre-emption rights

The pre-emption rights referred to above do not apply to certain types of issues including those pursuant to the Warrants and the Contingent Consideration Agreement, the Contingent Fee Agreement and the Contingent Subscription Agreement and may be disapplied in whole or modified provided the directors are given power by special resolution and subject to the terms of such resolution.

(m) Purchase of own shares

The Company may, subject to the Companies Law, purchase its own shares (including any redeemable shares), provided the members have approved the purchase by ordinary resolution. The Company may make a payment in respect of the redemption or purchase of its own shares in any manner permitted by the Companies Law, applicable law or regulation, including out of capital, profits, share premium or the proceeds of a fresh issue of shares.

(n) General meetings

The Board may call general meetings whenever and at such times and places as it shall determine. General meetings shall also be convened on the requisition in writing of any shareholder or shareholders entitled to attend and vote at general meetings of the Company holding five per cent. of the paid up voting share capital of the Company deposited at the head office, specifying the objects of the meeting. Having received the requisition to call a general meeting, the directors must call a meeting within 21 days from the date on which they become subject to the requirement, and the meeting must be held on a date not more than 28 days after the date of the notice convening the meeting.

The Company is required to call an annual general meeting each year to be held within six months following its financial year end and shall call it by at least 21 clear days' notice. Subject to the provisions of the Companies Law, all other general meetings shall be called by at least 14 clear days' notice. The notice will be sent to every member, director and the Company's auditors. The notice will specify, inter alia, the time, date and place of the meeting and the general nature of the business to be dealt with. In the case of an annual general meeting, the notice shall specify the meeting as such.

In the case of a meeting to pass a special resolution, the notice shall specify the intention to propose the resolution as a special resolution.

The members of the Company may require the Company to give, to the members entitled to receive notice of the next annual general meeting, notice of a resolution which may properly be proposed and is intended to be proposed at that meeting and any matter to be included in the business to be dealt with at the annual general meeting. A resolution may properly be proposed at an annual general meeting unless it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), defamatory of any person, or it is frivolous or vexatious. Any matter may properly be included in the business at an annual general meeting unless it is defamatory of any person, or it is frivolous or vexatious.

The Company shall give notice of a resolution and/or include such a matter once it has received requests that it do so from members representing at least five per cent. of the total voting rights of all the members who have a right to vote (and in the case of a notice of a resolution, the right to vote on the resolution) at the annual general meeting to which the requests relate, or at least 100 members who have a right to vote (and in the case of a notice of a resolution, the right to vote on the resolution) at the annual general meeting to which the requests relate and hold shares in the Company on which there has been paid up an average sum, per member, of at least £100.

The Company is also obliged to publish certain information in advance of a general meeting on its website.

(o) Disclosure of interests in shares

The provisions of Chapter 5 (*Vote Holder and Issuer Notification Rules*) of the Disclosure and Transparency Rules apply to the Company as if the Company was an "issuer" (as defined in the Disclosure and Transparency Rules). This is in addition to, and separate from, any other rights or obligations arising under the Companies Law, the DFSA or otherwise.

The Board has power by notice to require any member or any other person it has reasonable cause to believe to be interested in shares or to have been so interested any time during the three years immediately preceding the date on which the notice is issued (an "interested party"), to disclose to the Company the nature of such interest and any documents to verify the identity of the interested party as the Board deems necessary.

If at any time the Board is satisfied that any member or an interested party, has been duly served with a disclosure notice under these provisions and is in default for the prescribed period in supplying to the Company the information thereby required, or, in purported compliance with such a notice, has made a statement which is false or inadequate in a material particular, then the Board may, in its absolute discretion at any time thereafter by notice (a "direction notice") to such member or interested party direct that, in respect of the shares in relation to which the default occurred (the "default shares"), the member shall not be entitled to attend or vote either personally or by proxy at a general meeting or at a separate meeting of the holders of that class of shares or on a poll. Also, where the default shares represent at least 0.25 per cent. (in nominal value) of the issued shares of their class, the direction notice may additionally direct that in respect of the default shares:

(a) any dividend (or any part of a dividend), distribution or other amount payable in respect of the default shares shall be withheld by the Company, which has no obligation to pay interest on it; and shall be payable (when the direction notice ceases to have effect) to the person who would but for the direction notice have been entitled to them; and/or

(b) where an offer of the right to elect to receive shares of the Company instead of cash in respect of any dividend or part thereof is or has been made by the Company, any election made thereunder by such member in respect of such default shares shall not be effective; and/or

(c) no transfer of any of the shares held by any such member shall be recognised or registered by the directors unless: (1) the transfer is an excepted transfer (as such term is defined in the Fourth Articles of Association); or (2) the member is not himself in default as regards supplying the requisite information required under this article and, when presented for registration, the transfer is accompanied by a certificate by the member in a form satisfactory to the directors to the effect that after due and careful enquiry the member is satisfied that none of the shares the subject of the transfer are default shares.

The Company is also obliged to keep a register of the interested parties.

The Board may be required to exercise their powers on the requisition of holders of the Company holding at the date of the deposit of the requisition not less than 10 per cent. of such of the paid-up capital of the Company as carries at that date the right of voting at the general meetings of the Company. The requisition must state that the requisitionists are requiring the Company to exercise its powers under the relevant article, specify the manner in which they require those powers to be exercised, give reasonable grounds for requiring the Company to exercise those powers in the manner specified and must be signed by the requisitionists and deposited at the registered office.

Where a person who appears to be interested in shares has been served with a direction notice, and the shares he appears to be interested in are held by an approved depositary, then the direction notice will only apply to the shares held by the approved depositary in which that person appears to be interested in and not to any other shares held by the approved depositary. Having been served with a direction notice, the obligations of an approved depositary as a member will be limited to disclosing to the Company any information relating to a person who appears to be interested in the shares held by it which has been recorded by it in accordance with the arrangement under which it was appointed as an approved depositary.

(p) Distribution of assets on liquidation

If the Company is wound up, the liquidator may, with the sanction of an ordinary resolution, divide among the members all or any part of the Company's assets and may value any assets and determine how the division shall be carried out; vest all or any part of the assets in trustees for the benefit of the members; and determine the scope and terms of those trusts. No member shall be compelled to accept any asset on which there is a liability.

(q) Directors' power to vote on contracts in which they are interested

Except as otherwise provided by the Fourth Articles of Association, a director shall not be entitled to vote on any resolution of the Board concerning a matter in which he has an interest (other than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company) which (together with any interest of any person connected with him) can reasonably be regarded as likely to give rise to a conflict with the interests of the Company. This does not apply if his interest arises only because the resolution concerns one or more of the following matters:

(a) the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of, the Company or any of its subsidiary undertakings;

(b) the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which the director has assumed responsibility (in whole or part and whether alone or jointly with others) under a guarantee or indemnity or by the giving of security;

(c) a contract, arrangement, transaction or proposal concerning an offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings for subscription or purchase, in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub underwriting of which he is to participate;

(d) a contract, arrangement, transaction or proposal for the benefit of employees of the Company or of any of its subsidiary undertakings which does not award him any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and

(e) a contract, arrangement, transaction or proposal concerning any insurance which the Company is empowered to purchase or maintain for, or for the benefit of, any directors of the Company or for persons who include directors of the Company.

The Company may by ordinary resolution suspend or relax any provision of the Fourth Articles of Association prohibiting a director from voting at a meeting of directors or of a committee of directors to any extent, either generally or in respect of any particular matter.

Where proposals are under consideration concerning the appointment (including without limitation fixing or varying the terms of appointment) of two or more directors to offices or employments with the Company or any body corporate in which the Company is interested, the proposals may be divided and considered in relation to each director separately. In such cases each of the directors concerned shall be entitled to vote in respect of each resolution except that concerning his own appointment.

(r) Board authorisation of directors' interests

The Board may authorise any matter proposed to it which would, if not so authorised, involve a breach of duty owed by a director to the Company as a matter of law, including, without limitation, any matter which relates to a situation in which a director has, or can have, an interest which conflicts, or possibly may conflict, with the interests of the Company. Any such authorisation will be effective only if:

(a) any requirement as to quorum at the meeting at which the matter is considered is met without counting the director in question or any other interested director; and

(b) the matter was agreed to without their voting or would have been agreed to if their votes had not been counted.

Provided that he has disclosed such office to the Board and where necessary such office has been approved by the Board, a director shall not be accountable to the Company for any remuneration or other benefit which he derives from any office or employment, from any transaction or arrangement or from any interest in any body corporate.

(s) Borrowing powers

The Board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital, and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(t) Directors' duties in respect of City Code

If and for so long as the Company shall not be subject to the City Code, the Board shall, in managing and conducting the business of the Company and in exercising or refraining from exercising any and all powers, rights and privileges use its reasonable endeavours to apply and to have the Company abide by the General Principles as set out in the City Code mutatis mutandis as though the Company were subject to the City Code. In the event that circumstances arise where, if the Company were subject to the City Code, the Company would be an offeree or otherwise the subject of an approach or the subject of a third party statement of firm intention to make an offer, the Board would comply and procure that the Company complied with the provisions of the City Code mutatis mutandis as though the Company were subject to the City Code. In the event that the Board recommends to the shareholders of the Company or any class thereof any takeover offer made for shares in the Company from time to time, the Board would obtain the undertaking of the offeror(s) to comply with the provisions of the City Code in the conduct and the execution of the relevant offer mutatis mutandis as though the Company were subject to the City Code. It is recognised that the Panel does not have jurisdiction and that, if and for so long as such may be the case, these provisions are subject in any event to the Companies Law and to the requirement that the Board must be satisfied that the application of the Fourth Articles of Association is in the best interests of the Company.

(u) Remuneration of Directors

The ordinary remuneration of the directors who do not hold executive office for their services including the Chairman of the Company (excluding amounts payable under any other provision of the Fourth Articles of Association) shall not exceed in aggregate £2,000,000 per annum or such higher amount as the Company may from time to time by ordinary resolution determine. Should a director who does not hold executive office perform duties or services which are outside the scope of their ordinary duties they may be paid extra remuneration as the Board shall determine.

The emoluments of any director holding executive office for his services as such shall be determined by the Board, and may be of any description, including, without limitation, admission to, or continuance of, membership of any scheme (including any share acquisition scheme) or fund instituted or established or financed or contributed to by the Company for the provision of pensions, life assurance or other benefits for employees or their dependants, or the payment of a pension or other benefits to him or his dependants on or after retirement or death, apart from membership of any such scheme or fund.

The Board may provide benefits, whether by the payment of gratuities or pensions or by insurance or otherwise, for any past or present director or employee of the Company or any of its subsidiary undertakings or any body corporate associated with, or any business acquired by, any of them, and for any member of his family or any person who is or was dependent on him.

The directors may be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the Board or committees of the Board, general meetings or separate meetings of the holders of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties.

A director shall not be required to hold any shares in the capital of the Company by way of qualification.

(v) Appointment of directors

Unless otherwise determined by ordinary resolution, the number of directors (other than alternate directors) shall be not less than five but shall not be subject to any maximum number. Directors may be appointed by the Company by ordinary resolution or by the Board. A director appointed by the Board shall hold office only until the next following annual general meeting and if not re-appointed at such annual general meeting, shall vacate office at its conclusion.

(w) Retirement of directors

At every annual general meeting, one-third (or the number nearest to one-third) of the directors shall retire from office, in accordance with the rules set out in the Fourth Articles of Association.

A director who retires at an annual general meeting may, if willing to act, be re-appointed. If he is re-appointed, he shall retain office until the meeting appoints someone in his place, or if it does not do so, until the end of the meeting.

(x) Disqualification and removal of directors

A person ceases to be a director in a number of circumstances, including removal by notice from the Board signed by no less than three quarters of the Board stating that person should cease to be a director. The Company may also, by ordinary resolution, remove any director from office.

(y) Indemnity

Without prejudice to any indemnity to which the person concerned may already be property entitled as at the date of the adoption of the Fourth Articles of Association, every director (including for the purposes of this paragraph any alternate director appointed pursuant to the provisions of the Fourth Articles of Association), secretary, assistant secretary or other officer for the time being and from time to time of the Company (but not including the Company's auditors) and the personal representatives of the same (each an "Indemnified Person") shall be indemnified and secured harmless out of the assets and funds of the Company against all actions, proceedings, costs, charges, claims, expenses, losses, damages or liabilities incurred or sustained by such Indemnified Person, other than by reason of such Indemnified Person's own dishonesty, wilful default or fraud, in or about the conduct of the Company's business or affairs (including as a result of any mistake of judgment) or in the execution, exercise or discharge of his duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by such Indemnified Person in defending (whether successfully or otherwise) any civil proceedings concerning the Company or its affairs in any court whether in the Cayman Islands or elsewhere.

(z) Takeover provisions

The Fourth Articles of Association adopt certain of the provisions of the City Code, including provisions dealing with compulsory takeover offers and shareholder treatment along the lines of the General Principles of the City Code (including "equal treatment") which are to be administered by the Board. These provisions (set out in Articles 153 and 251 to 259) have effect only during such times as the City Code does not apply to the Company.

Pursuant to the Fourth Articles of Association, a person (excluding a depositary, custodian or nominee) must not:

(a) acting by himself or with persons determined by the Board to be acting in concert, seek to acquire an interest in shares in the Company, which carry 30 per cent., or more of the voting rights attributable to the shares in the Company; or

(b) acting by himself or with persons determined by the Board to be acting in concert, and holding not less than 30 per cent., but not more than 50 per cent., of the voting rights, seek to acquire, by himself or with persons determined by the Board to be acting in concert, additional interest in shares which, taken together with the interest in shares held by the persons determined by the Board to be acting in concert with him, increase his voting rights, or

(c) effect or purport to effect an acquisition which would breach or not comply with Rules 4, 5, 6, 8 or 11 of the City Code, if the Company were subject to the City Code,

(d) except, in the case of either (a) or (b) above, as a result of a "permitted acquisition" (meaning an acquisition either consented to by the Board, or made in compliance with Rule 9 of the City Code (as if it so applied and with such amendments as the Board may consent to), or arising from the repayment of a stock borrowing arrangement).

Where the Directors have reason to believe that any of such circumstances has taken place, then it may take all or any of certain measures:

(a) require the person(s) appearing to be interested in the shares of the Company to provide such information as the Board considers appropriate;

(b) have regard to such public filings as may be necessary to determine any of the matters under Articles 251 to 259;

(c) make any determination under Articles 251 to 259 as it thinks fit, either after calling for submissions by the relevant person(s) or without calling for any;

(d) determine that the voting rights attached to such shares acquired in breach of the Fourth Articles of Association (the "Excess Shares") are from a particular time incapable of being exercised for a definite or indefinite period;

(e) determine that some or all of the Excess Shares are to be sold either to a third party, to a member of to the Company for cancellation;

(f) determine that some or all of the Excess Shares will not carry any right to any dividends or other distributions from a particular time for a definite or indefinite period; and

(g) taking such actions as it thinks fit for the purposes of Articles 251 to 259, including prescribing rules not inconsistent with Articles 251 to 259, setting deadlines for the provision of information, drawing adverse inferences where information requested is not provided, making determinations or interim determinations, executing documents on behalf of a shareholder, paying costs and expenses out of proceeds of sale and changing any decision or determination or rule previously made.

The Board has the full authority to determine the application of Articles 153 and 251 to 259, including the deemed application of the whole or any part of the City Code, and such authority shall include all the discretion that the Panel would exercise if the whole or part of the City Code applied to the Company. Any resolution or determination made by the Board or the chairman of any meeting acting in good faith is conclusive and is not open to challenge as to its validity or as to any other ground. The Board is not required to give any reason for any decision or determination it makes. In exercising the powers under Article 153 and 251 to 259, the Board will comply with the principle that all holders of Ordinary Shares that are in the same position shall be treated equally in respect of the rights attaching to their shares and otherwise in accordance with their duties under applicable law.

Subject to the Companies Law, any other applicable law or anything contained in the Fourth Articles of Association, an approved depositary holding shares in the capital of the Company in the form of depositary interests shall not be obliged to accept the issue or transfer to it of shares, if such issue or transfer would likely result in such depositary having to make a mandatary offer for other shares in the capital of the Company. In the event that such depositary is required to make a mandatory offer to purchase other shares in the capital of the Company under applicable law, the Company shall cooperate with such depositary in seeking an exemption or waiver of such requirement and the Company shall bear all reasonable costs of such depositary in connection with seeking such exemption or waiver.

(aa) Electronic communications

The Board may from time to time issue, endorse, adopt or amend terms and conditions relating to the use of electronic means for sending notices, other documents and proxy appointments by the Company to members.

(bb) Information rights

A member who holds shares on behalf of another person may nominate that person to enjoy "Information Rights". "Information Rights" means the right to receive a copy of all communications (including the accounts and reports) that the Company sends to its members generally or to any class of its members that includes the person making the nomination, and the rights of members under the Companies Law, any applicable law or regulation and the Fourth Articles of Association to require a single copy of the Company's last annual accounts, the last directors' report, the last directors' remuneration report and the auditor's report on those accounts and, free of charge, a hard copy version of a document or information provided to a member in another form. The effect of any nominations may be terminated or suspended in certain circumstances set out in the Fourth Articles of Association.

(cc) Right to inspect the register

Companies which are registered in the Cayman Islands are not required to file shareholder information with the Registrar of Companies in the Cayman Islands, in contrast to the requirement for companies registered in England and Wales to file certain changes to shareholder information with Companies House in the UK. Consequently, information on shareholders of Cayman Islands registered companies will not be available to the public or to shareholders of the Company. Further, information on shareholders of companies traded on Euronext Amsterdam is not available to the public or to shareholders of the Company (for more information see "—Major Shareholders—Ordinary Shares held by Euroclear Nederland"). As a result of this, the Company has inserted a right within the Fourth Articles of Association of the Company to allow shareholders the right to inspect the registers of the Company during normal business hours.

3 RELATED PARTY TRANSACTIONS

The Company has entered into transactions with certain of its major Shareholders, including TDR Capital and Sun Capital (whose affiliates control Xercise Limited). The principal related transactions with major Shareholders are summarised below. Further information on related party transactions entered into by members of the Group, OPB and the Resolution Group from 1 January 2007 to 31 December 2009 (including some of those summarised below) are included within the financial statements set out in the Annex to this Prospectus.

3.1 Drago Real Estate Partners

On 4 October 2006, Sun Capital, Drago Real Estate Partners ("Drago") and various other unrelated parties entered into a shareholders and subscription agreement pursuant to which the parties agreed to invest in Drago for investment in real estate in Iberia. Pearl Assurance became a shareholder in Drago and a party to the shareholders and subscription agreement on 4 July 2007. Sun Capital is also a shareholder in the management company for the real estate fund, Mare Nostrum Capital Managers Ltd who are paid a management fee by Drago. The relationship between the parties is governed by various shareholders' agreements and framework agreements that were amended and restated between October 2006 and July 2007. Pearl Assurance currently owns 24.9 per cent. of, and has €31.4 million invested in Drago, with a further undrawn capital commitment in the amount of €11.6 million.

3.2 Property Services Agreement

Sun Capital and Axial were party to an agreement for Sun Capital's provision of property investment services to Axial in respect of property assets managed by Axial. Axial paid Sun Capital a monthly fee of £100,000 plus VAT during the term of the agreement, which terminated on 31 March 2010.

3.3 Disposal of interests in VPS Holdings Limited

On 31 March 2010, following an auction process involving external advisers, Axial European Partners 1, L.P., a limited partnership ultimately controlled by Pearl Assurance, completed its disposal of ordinary shares representing approximately 77.3 per cent. of the issued share capital of, and certain loan notes in, (together the "Transferred VPS Interests") VPS Holdings Limited. VPS Holdings Limited is engaged in the protection and management of vacant properties. The Transferred Interests were acquired by VPS Acquisitions Limited, a special purpose vehicle ultimately controlled by TDR Capital.

The net consideration received by Axial European Partners 1, L.P. in respect of the Transferred VPS Interests was approximately £85 million. Pursuant to a sale and purchase agreement dated 3 December 2009, Axial European Partners 1, L.P. gave warranties in respect of title to the Transferred VPS Interests and capacity and authority in respect of the transaction, which are standard for the transactions of this type.

Following the completion of the disposal of the Transferred VPS Interests, the Group no longer has any holding of shares or loan notes in VPS Holdings Limited.

3.4 Investment in TDR Capital II 'C' L.P.

As part of its asset management programme the Group has a number of investments in private equity and/or alternate investment funds. One of these investments includes a commitment to TDR Capital II 'C' L.P., a private equity fund managed by TDR Capital. The total commitment to the TDR Capital fund from institutional investors is €1.75 billion of which the Group has invested approximately €19.7 million to date and has agreed to invest a further amount of approximately €30.3 million, if required. The Group's investment in the TDR Capital fund is made on the same terms as the other institutional investors.

3.5 Investment in Algeco Scotsman

Algeco Scotsman is a global modular space business which is majority owned by funds managed by TDR Capital and partially owned by an entity associated with Sun Capital (the "AS Shareholders"). Algeco Scotsman was created in 2007 following the merger of Algeco and Williams Scotsman International, Inc. The merger of the two businesses was funded by equity provided by the AS Shareholders and by debt underwritten by Deutsche Bank AS and The Royal Bank of Scotland plc (the "AS Debt Providers"). Following the acquisition the AS Debt Providers syndicated part of the senior and mezzanine debt they held to a number of institutional investors including the Group. Following syndication members of the Group held approximately 10 per cent. of the total mezzanine and senior debt owed by Algeco Scotsman. The Group's interest in the mezzanine loan was converted into an equity interest in December 2009. The Group's interest in the senior loan is held in the leveraged loan portfolio of Axial Fixed Income Opportunities S.a.r.l., a member of the Group.

3.6 Total return swaps between TDR Capital and ACOHL

Axial Credit Opportunities Holdings Limited ("ACOHL") has entered into two total return swap transactions (the "TRS Transactions") with TDR Capital under a total return swap confirmations dated 19 December 2008 as amended and restated on 9 June 2009, each of which was supplemental to an ISDA master agreement and schedule.

Each TRS Transaction references a loan in the leveraged loan portfolio owned by Axial Fixed Income Opportunities S.a.r.l., respectively the Algeco Scotsman and the Alliance Boots loans, and has the purpose of hedging part of the exposure of Axial Fixed Income Opportunities S.a.r.l. to changes in the value and credit risk of such underlying loans. As at 31 December 2009 the swaps had a fair value of £27.1 million and TDR Capital had charged £5.9 million of interest, of which £0.3 million was outstanding.

Under the terms of each TRS Transaction ACOHL has agreed to swap the total returns (interest and principal) received on the hedged amount of the underlying loans in return for payment by TDR Capital of a floating rate of interest. The amounts payable by each party are connected to changes in the market value of the underlying asset and changes resulting from the occurrence of certain credit events.

3.7 Banco Santander real estate portfolio

Pursuant to senior and mezzanine loan acquisition facilities entered into in November 2007 Samos Servicios y Gestiones, S.L. ("Samos Servicios") acquired the entire freehold branch network of Banco Santander in Spain.

Pearl Assurance lent €50 million to Samos Servicios as part of the mezzanine loan facility. In addition, the Group's companies have an interest of approximately 19.5 per cent. in the ultimate holding company of Samos Servicios. In total, Group companies have invested approximately €112 million in shares and loans in the ultimate holding company of Samos Services and the €50 million part of the mezzanine loan facility (excluding accrued interest).

The ultimate holding company of Samos Servicios is majority owned by Sun Capital. TDR Capital and Drago are minority shareholders. A fee based on time spent providing services and capped at €375,000 per year is payable from Samos Servicios to Sun Capital while Samos Servicios also pays Sun Capital for additional work and expenses.

The Group's investment in Samos Servicios is governed by an investors' agreement dated 14 November 2007 between, among others, Pearl Assurance, TDR Capital and a Drago entity.

3.8 Use of Sun Capital's offices

PGH2 entered into an arrangement whereby certain employees of the Group used office space at Sun Capital Partners' offices. This arrangement has now been terminated by the Group but in connection with it, the Company owes Sun Capital Partners Limited £141,614.64.

4 MAJOR SHAREHOLDERS

4.1 Major interests in Shares

Under the DFSA, interests in 5 per cent. or more of the Shares in issue must be disclosed to the AFM. Based on information available to the Company and in the public register kept by the AFM as at 3 June 2010 (being the last practicable date prior to publication of this Prospectus), the parties set out in the table below hold, directly or indirectly, an interest in the Company's capital or voting rights of 5 per cent. or more.

	As at 3 June 2010					
Name	Number of Ordinary Shares	Number of Class B Shares(1)	Total number of Class B and Ordinary Shares(1)	Percentage of Shares in issue	Number of Ordinary Shares issuable pursuant to Warrants	Number of Ordinary Shares issuable pursuant to Contingent Rights(2)
Royal London	0	6,180,000	6,180,000	4.67	12,360,000	—
TDR Capital	0	18,401,611	18,401,611	13.89	—	11,933,073
Xercise Limited	0	14,108,205	14,108,205	10.65	—	9,180,660
ME Franklin(3)	6,468,207	968,599	7,436,806	5.61	—	—
Tarragona Trust(4)	7,104,640	874,161	7,978,801	6.00	—	—

(1) At Admission, the Class B Shares will be re-designated as Ordinary Shares.

(2) The Company may be required to issue a total of 26,500,000 Shares pursuant to the Contingent Rights contained in the Contingent Consideration Agreement (see "—Material Contracts—Contingent Consideration Agreement"). The amounts given are calculated on the basis that all such Shares are required to be issued.

(3) ME Franklin informed the AFM on 6 January 2010 that his interest was held by Marlin Equities IV, LLC.

(4) Tarragona Trust informed the AFM on 6 November 2009 that their interest was held by Berggruen Acquisition Holdings II Ltd., Berggruen Holdings North America Ltd. and Berggruen Holdings Ltd.

Insofar as is known to the Company, the Company is not directly or indirectly owned or controlled by another corporation, any foreign government, or any other natural or legal person, severally or jointly.

None of the major Shareholders referred to above has different voting rights from other Shareholders.

Pursuant to the DFSA and the rules promulgated thereunder, any person who, directly or indirectly, acquires or disposes of a capital interest or voting rights in the Company must forthwith give written notice to the AFM of such capital interest and/or voting rights. This notification obligation will exist if an acquisition or disposal causes the total percentage of the capital interest and/or voting rights held to reach, exceed or fall below the following thresholds: 5 per cent., 10 per cent. 15 per cent., 20 per cent., 25 per cent., 30 per cent., 40 per cent., 50 per cent., 60 per cent., 75 per cent. and 95 per cent. Also, any person whose capital interest or voting rights in the Company reaches, exceeds or falls below a threshold due to a change in the Company's outstanding capital, or in votes that can be cast on the Shares as notified to the AFM by the Company, should notify the AFM no later than the fourth trading day after the AFM has published the Company's notification. The AFM keeps a public register of all notifications made pursuant to the DFSA.

4.2 Disclosure of trades in listed securities under Dutch law

Pursuant to the DFSA and the rules promulgated thereunder, members of the Board, and any other person who has managerial responsibilities or who has the authority to make decisions affecting the future developments and business prospects of the Company and who has regular access to inside information relating, directly or indirectly, to the Company (an "Insider"), must notify the AFM of all transactions conducted on his own account relating to the Shares or securities of the Company, the value of which is determined by the value of his Shares.

In addition, persons designated by the Decree on Market Abuse pursuant to the DFSA (*Besluit marktmisbruik Wft*) (the "Market Abuse Decree") who are closely associated with members of the Board or any of the Insiders must notify the AFM of the existence of any transactions conducted for their own account relating to the Shares or securities of the Company, the value of which is determined by the value of the Shares. The Market Abuse Decree designates the following categories of persons: (i) the spouse or any partner considered by national law as equivalent to the spouse, (ii) dependent children, (iii) other relatives who have shared the same household for at least one year at the relevant transaction date, and (iv) any legal person, trust or partnership, among other things, whose managerial responsibilities are discharged by a person referred to under (i), (ii) or (iii) above.

The AFM must be notified of transactions effected in either the Shares or securities of the Company, the value of which is determined by the value of the Shares, no later than the fifth business day following the transaction date. Notification may be postponed until the date the value of the transactions amounts to EUR 5,000 or more per calendar year. The AFM keeps a public register of all notifications made pursuant to the DFSA.

4.3 Ordinary Shares held by Euroclear Nederland

For the purposes of enabling Ordinary Shares to be traded on Euronext Amsterdam, as at the date of this Prospectus Ordinary Shares are held by Euroclear Nederland as nominee for the underlying beneficial Shareholders. Although such underlying beneficial Shareholders are, pursuant to the DFSA, required to notify the Company to the extent that they hold 5 per cent. or more of the Ordinary Shares in issue (as described in more detail above), as a practical matter, the Company is not able to verify that all such required notifications have been made since Euroclear Nederland is not permitted to disclose to the Company the identity of such underlying beneficial Shareholders.

5 TAKEOVERS

5.1 City Code on Takeovers and Mergers

As the Company is incorporated in the Cayman Islands, the City Code will not apply to the Company. Accordingly, the Company has incorporated provisions in the Articles of Association to be adopted prior to Admission to reflect, as far as practicable, certain provisions of the City Code (see "—Memorandum and Articles of Association" above). These provisions do not, however, provide shareholders with the full protections offered by the City Code.

In particular the Articles of Association provide that the Company will use its reasonable endeavours to apply and abide by the General Principles of the City Code as though the Company were subject to the City Code, comply with the provisions of the City Code applicable to an offeree if the Company is subject to an offer and, if the Board recommends an offer, obtain an undertaking from the offeror to comply with the provisions of City Code in relation to the conduct and execution of that offer as though the Company were subject to the City Code.

The Articles of Association also include provisions that are similar in effect to Rule 9 of the City Code, subject to certain adaptations and limitations. These provisions will apply for as long as the City Code does not apply to the Company.

For example, for so long as the Panel considers that the Company is not subject to the provisions of the City Code, the Panel will not assume responsibility for ensuring compliance with the City Code in relation to the Company. Instead, it will be a matter for the Board exercising its discretion in light of prevailing circumstances and in a manner consistent with its obligations and any specific provisions included in the Articles of Association. The Board will always exercise such powers in good faith and in a manner it believes to be in the best interests of shareholders as a whole. In attempting to fulfill the role of the Panel, the Directors would not have the same powers or have access to the same information and experience as the Panel would have on a transaction to which the Code applies. The Articles of Association provide that in exercising its powers under the Articles of Association, the Board will comply with the principle that all Ordinary Shareholders that are in the same position shall be treated equally in respect of the rights attaching to their shares and otherwise in accordance with their duties under applicable law. The Board intends that the City Code should be observed and will exercise all discretion that the Panel would be permitted to exercise, if the City Code applied to the Company, in accordance with the practice of the Panel at the time that the discretion is so exercised so far as the Board considers it reasonably practicable and consistent with its obligations. The Company has no method of ensuring that a shareholder or other bidder that launches an offer for the Company will adhere to the principles set out in the City Code.

The City Code restricts target companies from taking frustrating action without shareholder approval when a takeover offer has been announced or is believed to be imminent, and specifies, by way of example, certain transactions that would require shareholder approval (such as the issuance of stock options, the sale of assets or the entry into contracts otherwise than in the ordinary course of business). The Company's intention to adhere to rules restricting the taking of frustrating action under the City Code will mean that the Company will be unable to take certain measures in relation to an unsolicited takeover offer that would have otherwise been available to the Company. The Company would only deviate from this principle if, acting in good faith and in the best interests of shareholders as a whole, the Directors believe that the Company's obligations required it to do so.

Neither the validity of the provisions of the City Code nor of the specific provisions that the Company has incorporated into the Articles of Association that are similar to certain provisions of the City Code have been determined by any Cayman Islands court, and there can be no assurance that any such provisions would be upheld or enforced by a Cayman Islands court in any or all respects or, if upheld and enforced, that a Cayman Islands court would construe these provisions in the same way as an English court or the Panel might.

The Articles of Association include a provision which exempts the Board from liability in respect of any exercise in good faith of any discretion it has in respect of the application of the relevant provisions in the Articles of Association or in performing its obligations.

5.2 Squeeze-out rules

Under the Companies Law, an offeror in respect of a takeover offer for the Company may, in certain circumstances, obtain the right compulsorily to acquire shares to which the offer relates but which it has not yet acquired or contracted to acquire. The offeror may not issue a notice requiring the acquisition of minority shares unless it has acquired or contracted to acquire not less than 90 per cent. in value of the shares to which the offer relates before the end of four months beginning with the date of the offer and no notice may be given after the end of the period of two months beginning with that date. The squeeze out of minority shareholders shall be completed unless on an application made by a dissenting shareholder to the Cayman Islands court within one month from the date on which the notice was given, the Cayman Islands Court thinks fit to order otherwise. The consideration offered to those shareholders whose shares are compulsorily acquired under the Companies Law must, in general, be the same as the consideration that was available under the general offer.

5.3 Dutch Takeover Act

The rules promulgated under the Dutch Takeover Act are applicable to the Company. In general, under the Dutch Takeover Act third parties are prohibited from launching a public takeover offer for securities in a company that has its seat in a state that is not a member of the EEA and whose securities are admitted to trading on Euronext Amsterdam unless an offer document has been approved by the AFM and has subsequently been published. The rules under the Dutch Takeover Act are intended to ensure that in the event of a public takeover offer sufficient information will be made available to the holders of the Company's securities, that the holders of the Company's securities will be treated equally, that there will be no abuse of inside information and that there will be a proper and timely offer period. The provisions of the Dutch Takeover Act relating to mandatory takeover offers are not applicable to the Company.

6. PRE-EMPTION RIGHTS

Shareholders do not, under Cayman Islands law, have pre-emption rights over further issues of shares of the Company or securities convertible into such shares unless such rights are expressly provided for in the articles of association. The Company has included provisions in the proposed Fourth Articles of Association to require the Company to provide pre-emption rights to the Company's Shareholders in certain circumstances. The relevant provisions of the proposed Fourth Articles of Association are summarised in "Memorandum and Articles of Association" above.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) (i) have been entered into by the Company or another member of the Group within the two years immediately preceding the date of this document and are or may be material or (ii) have been entered into prior to such period and contain provisions under which a member of the Group has an obligation or entitlement which is material to the Group.

7.1 Depositary contracts

Depositary Interests in respect of Ordinary Warrants will be created, issued and held in the same manner as Depositary Interests in respect of Ordinary Shares. As such, the documents described below in relation to Ordinary Shares represented by Depositary Interests will also apply in broadly the same way to Ordinary Warrants represented by Depositary Interests.

(a) Deed Poll

The DIs will be created pursuant to, and issued on the terms of, the Deed Poll dated 2 June 2010.

Each DI will be treated by the Depositary as one Ordinary Share for the purposes of determining, for example, eligibility for any distributions. The Depositary has agreed to pass on to holders of DIs any stock or cash benefits received by it as holder of Ordinary Shares on trust for such DI holder.

In summary, the Deed Poll contains, inter alia, provisions to the following effect:

- The Depositary, which is regulated by the FSA, will hold (itself or through the Custodian), as bare trustee, the underlying Ordinary Shares issued by the Company and all and any rights and other securities, property and cash attributable to the underlying Ordinary Shares for the time being held by the Depositary or Custodian pertaining to the DIs for the benefit of the DI holders.
- The Depositary will re-allocate securities or distributions allocated to the Depositary or the Custodian pro rata to the Ordinary Shares held for the respective accounts of the holders of DIs but will not be required to account for fractional entitlements arising from such re-allocation.
- Each DI holder warrants, inter alia, that the Ordinary Shares transferred or issued to the Depositary or Custodian for the account of such DI holder are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Articles of Association or any contractual obligation, or applicable law or regulations binding or affecting such holder.
- The Depositary and any Custodian must pass on to DI holders all rights and entitlements received by the Depositary or the Custodian in respect of the Ordinary Shares. However, there can be no assurance that all such rights and entitlements will at all times be duly and timely passed on. Rights and entitlements to cash distributions, to information, to make choices and elections and to attend and vote at meetings must, subject to the Deed Poll, be passed on in the form which they are received, together with amendments and additional documentation necessary to effect such passing-on. If arrangements are made which allow a DI holder to take up rights in Ordinary Shares requiring further payment, the DI holder must put the Depositary in cleared funds before the relevant payment date or other date notified by the Depositary if it wishes the Depositary to exercise such rights.
- The Depositary will be entitled to cancel DIs and treat the DI holder as having requested a withdrawal of the Ordinary Shares in certain circumstances, including where a DI holder is a person whose holding of or to whom a transfer of, DIs might, in the Depositary's opinion, require the registration of the Company as an investment company under the US Investment Company Act or where a DI holder fails to furnish to the Depositary such certificates or representations as to material matters of fact, including his identity, as the Depositary deems appropriate.
- The Deed Poll contains provisions excluding and limiting the Depositary's liability. For example, the Depositary shall not be liable to any DI holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or wilful default or fraud or that of any person for whom it is vicariously liable, provided that the Depositary shall not be liable for the negligence, wilful default or fraud of any Custodian or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent. Furthermore, the Depositary's liability to a DI holder will be limited to the lesser of:
    - the value of the shares and other deposited property properly attributable to the DIs to which the liability relates; and
    - that proportion of £5 million which corresponds to the proportion which the amount the Depositary would otherwise be liable to pay to the DI holder bears to the aggregate of the amounts the Depositary would otherwise be liable to pay to all such holders in respect of the same act, omission, or event or, if there are no such amounts, £5 million.

- The Depositary is entitled to charge DI holders fees and expenses for the provision of its services under the Deed Poll.
- The DI holders are required to agree and acknowledge with the Depositary that it is their responsibility to ensure that any transfer of DIs by them which is identified by the CREST system as exempt from SDRT is so exempt, and to notify the Depositary if this is not the case, and to pay to Euroclear any interest, charges or penalties arising from non-payment of SDRT in respect of such transaction.
- Each DI holder is liable to indemnify the Depositary and any Custodian (and their agents, officers and employees) against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the DIs (and any property or rights held by the Depositary or Custodian in connection with the DIs) held by that holder, other than those resulting from the wilful default, negligence or fraud of the Depositary, or the Custodian or agent if such Custodian or agent is a member of the Depositary's group or if, not being a member of the same group, the Depositary shall have failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent.
- The Depositary is entitled to make deductions from any income or capital arising from the Ordinary Shares, or to sell such Ordinary Shares and make deductions from the sale proceeds therefrom, in order to discharge the indemnification obligations of DI holders.
- The Depositary may terminate the Deed Poll by giving 30 days' notice. During such notice period holders may cancel their DIs and withdraw their deposited property and, if any DIs remain outstanding after termination, the Depositary must, among other things, deliver the deposited property in respect of the DIs to the relevant DI holders or, at its discretion, sell all or part of such deposited property. It shall, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums due to the Depositary, together with any other cash held by it under the Deed Poll pro rata to holders of DIs in respect of their DIs.
- The Depositary or the Custodian may require from any holder information as to the capacity in which DIs are or were owned and the identity of any other person with or previously having any interest in such DIs and the nature of such interest and evidence or declarations of nationality or residence of the legal or beneficial owners of DIs and such information as is required for the transfer of the relevant Ordinary Shares to the DI holders. DI holders agree to provide such information requested and consent to the disclosure of such information by the Depositary or Custodian to the extent necessary or desirable to comply with their legal or regulatory obligations. Furthermore, to the extent that the Articles of Association require disclosure to the Company of, or limitations in relation to, beneficial or other ownership of the Ordinary Shares, the DI holders are to comply with the Company's instructions with respect thereto.

It should also be noted that the DI holders will not have the opportunity to exercise all of the rights and entitlements which Cayman Islands law and the Articles of Association confer on Shareholders, such as the ability to vote on a show of hands. In relation to voting it will be important for DI holders to give prompt instructions to the Depositary to vote the Ordinary Shares on their behalf.

(b) Depositary Agreement

Under the terms of the depositary agreement dated 2 June 2010 between the Company and the Depositary (the "Depositary Agreement"), the Company appoints the Depositary to constitute and issue from time to time, upon the terms of the Deed Poll (summarised above), Depositary Interests representing Ordinary Shares and to provide certain other services in connection with such Depositary Interests (including custody services).

The Depositary agrees that it will provide the various services in good faith and with all reasonable skill and care. The depositary services to be provided by the Depositary include, for example, to maintain the register of Depositary Interests, to issue Depositary Interests to CREST members and to effect transactions relating to the Depositary Interests on behalf of CREST members and the Custodian.

The Custodian, to be appointed by the Depositary, will provide custody services including the holding of the Ordinary Shares in respect of which Depositary Interests are issued by the Depositary and the execution of instructions received from CREST members in relation to the Ordinary Shares held on their behalf.

In addition, the Depositary Agreement sets out the procedures to be followed where the Company is to pay or make a dividend or other distribution.

The Company agrees to provide such assistance, information and documentation to the Depositary as is reasonably required by the Depositary for the purposes of performing the services under the Depositary Agreement.

The Depositary is to indemnify the Company and its directors against any loss which they may incur as a result of the fraud, negligence or wilful default of the Depositary or the Custodian. The appointment of the Depositary will be for a fixed period of three years, subject to early termination, and thereafter by either party giving to the other not less than six months' notice. If one party is in persistent or material breach, which (if capable of remedy) is not remedied within 21 days, or if it goes into insolvency or liquidation or ceases to have the appropriate authorisations, the other party may terminate the Depositary Agreement early by notice in writing.

The Company is to pay certain fees and charges including, *inter alia*, an annual fee, a registrar fee, a fee based on the number of Depositary Interests which are deposited, transferred or cancelled and certain CREST related fees. The Depositary is also entitled to recover reasonable out-of-pocket fees and expenses.

(c) Cayman Registrar Agreement

Following the AGM and prior to Admission, the current registrar arrangement between the Company and The Royal Bank of Scotland N.V. will be terminated as the Company entered into a Cayman Registrar Agreement dated 2 June 2010 with Computershare Investor Services (Cayman) Limited (the "Cayman Registrar").

Under the terms of the Cayman Registrar Agreement, the Cayman Registrar will act as the registrar of the register of members of the Company kept in the Cayman Islands (the "Offshore Register") and provide registration services to the Company which will include maintenance of the Offshore Register, registering dealings of Ordinary Shares via CREST and maintenance of dividend payment instructions.

Under the Cayman Registrar Agreement, the Cayman Registrar is entitled to receive a basic annual fee as well as additional fees for specific actions.

The Cayman Registrar Agreement has an effective initial term of three years, subject to early termination, after which the agreement will continue until terminated by the Company giving the Cayman Registrar not less that six months' notice. The Cayman Registrar Agreement may be terminated immediately by either party if the other party becomes insolvent or commits a material breach which (if capable of remedy) is not remedied within 30 days.

The Company has agreed to indemnify the Cayman Registrar and its officers and employees against all and any liabilities which may be suffered or incurred by the Cayman Registrar or its officers and employees in connection with the performance of its or their obligations under the Cayman Registrar Agreement save to the extent that such liabilities may be due to the fraud, negligence or wilful default of the Cayman Registrar or its officers or employees.

The liability of the Cayman Registrar to the Company under the Cayman Registrar Agreement is limited to the fees payable to the Cayman Registrar in any 12 month period.

The Cayman Registrar Agreement is governed by the laws of the Cayman Islands.

7.2 Pearl SPA

(a) Structure of the Acquisition

The Pearl SPA, which was signed on 27 June 2009, provides for the acquisition by the Company of all of the outstanding equity interests of LCA, LCB, TC1 and TC2 in consideration for 36,418,936 newly created and issued Class B Shares in the Company plus any shares in the Company issued pursuant to the Contingent Consideration Agreement ("CCA") described in "Contingent Consideration Agreement" below.

The Pearl Group Sellers consist of Sun Capital, TDR Capital, Xercise Limited, Xercise Midco Limited, Jambright Limited and Jambright Midco Limited.

(b) Warranties

The Pearl SPA contains a number of warranties made by the Pearl Group Sellers and the Company to each other.

The warranties given by TDR Capital, Xercise Limited, Jambright Limited, Xercise Midco Limited and Jambright Midco Limited include warranties in respect of: (i) organisation and qualification; and (ii) capacity or authority to execute, deliver, and perform its obligations under the transaction documents related to the Acquisition and the enforceability of those transaction documents.

The warranties given by all of the Pearl Group Sellers include warranties in respect of: (i) enforceability of the Pearl SPA against such Pearl Group Sellers; (ii) ownership of the shares of LCA, LCB, TC1 and TC2 by the Pearl Group Sellers; and (iii) solvency of such Pearl Group Seller.

The substantially reciprocal warranties given by each of the Company and the Pearl Group Sellers (in respect of LCA, LCB, TC1 and TC2, which are described below in ''Opal Re SPA—Warranties'') include warranties relating to: (i) organisation, qualification and subsidiaries; (ii) absence of any conflicts or violations under organisational documents and material agreements; (iii) applicable laws, licenses or permits as a result of the consummation of the Acquisition or the execution, delivery or performance of the transaction documents; (iv) capitalisation; (v) financial statements and liabilities; (vi) absence of certain changes or events since 31 December 2008; (vii) material contracts and change of control agreements; (viii) tax; (ix) compliance with applicable laws; and (x) employment and employee benefits matters. The Pearl Group Sellers also give warranties regarding pensions and the Company gives warranties regarding its trust account and the funds therein.

(c) Survival

All warranties survived the completion of the Pearl SPA. However, no claim based on a breach of any warranty may be made after the date that is 30 days after the completion and delivery to the Company of its audited financial statements for the fiscal year ending 31 December 2010.

(d) Liability for breaches of warranties

The Pearl Group Sellers and the Opal Re Sellers are liable to the Company for any warranty given by the Pearl Group Sellers in the Pearl SPA. The Company is liable to the Pearl Group Sellers for any breach of any warranty made by the Company in the Pearl SPA.

Claim Thresholds. There are three types of minimum euro claim thresholds that must be exceeded before claims can be made for breach of warranties: (i) no claim for breach of warranties may be made for claims that involve damages of less than €500,000; (ii) no claim for breach of warranties may be made for any tax claim that involves damages of less than €5 million; and (iii) no claim for breach of warranties may be made until the aggregate amount of all claims under the Purchase Agreements (other than those excluded in clauses (i) and (ii) in each of the Purchase Agreements albeit that a combined cap and hurdle applies across both Purchase Agreements above) exceeds €50 million.

Claims for breach of certain warranties are not subject to the minimum claim amount specified in clause (i) above nor the claim thresholds described in clause (iii) above. These relate to breaches of certain warranties as to the legality and binding effect of the Pearl SPA with respect to the person making that warranty, that person's title to its purchased shares and certain other matters.

Damage Claim Caps. The Pearl SPA also includes limits on the maximum amount that may be recovered for claims based on breach of warranties. For the Pearl Group Sellers and the Opal Re Sellers, the cap is an amount equal to 50 per cent. of (i) the Class B Shares issued pursuant to the Pearl SPA, (ii) the Class B Shares issued pursuant to the Opal Re SPA and (iii) the entitlement to Ordinary Shares issuable pursuant to the CCA (valued as of the date of completion of the Acquisition), except that in the case of breaches of designated warranties, the cap is equal to 100 per cent. of the value of such shares (valued as of the closing date). For the Company, the cap is an amount equal to 50 per cent. of the issued shares (valued at the closing date), except that in the case of breaches of designated warranties, the cap is equal to 100 per cent. of the value of the issued shares (valued as of the date of the consummation of the Acquisition).

Damages Payable by the Company. Any damages payable by the Company will be paid by wire transfer of immediately available euros to each relevant Pearl Group Seller within ten business days after such amount has been established. If the Company shall fail to pay any amounts due, each of Berggruen Holdings II Ltd, and Marlin Equities IV, LLC will pay 50 per cent. of the aggregate amount payable by the Company. Berggruen Holdings II Ltd, and Marlin Equities IV, LLC may pay any amounts due in cash or in Ordinary Shares valued at the unpaid amount divided by the ''Applicable Share Price'' being an amount equal to the volume weighted-average share price of such shares for the 30-day trading period following the public disclosure of the event giving rise to a damage claim or, if no public disclosure has been made, then the 30-day trading period following delivery of a claim notice. Berggruen Holdings II Ltd, and Marlin Equities IV, LLC shall not be required to pay the Pearl Group Sellers more than the product of (i) 50 per cent. of the number of Ordinary Shares purchased by each of them directly from the Company prior to the Company's initial public offering; and (ii) the Applicable Share Price.

Damages Payable by the Pearl Group Sellers and the Opal Re Sellers. Any damages payable by a Pearl Group Seller and the Opal Re Sellers will be paid to the Company within ten business days after such amount has been established, by (i) wire transfer of immediately available cash (in the currency in which the Company's Ordinary Shares are denominated on the business day before the payment); or (ii) by requesting that the Company compulsorily redeem shares held by a Pearl Group Seller or the Opal Re Sellers or require the relinquishment of the right to such number of Ordinary Shares issued or to be issued under the CCA with a value equal to the amount payable by such Pearl Group Seller or Opal Re Seller (divided by the Applicable Share Price). If any Pearl Group Seller or Opal Re Seller fails to pay its portion of any damages within the ten business day period referred to above, the Company may redeem or cancel the right to receive an amount of shares with a value equal to the unpaid amount (divided by the Applicable Share Price). The Class B Shares and the Ordinary Shares to be used to pay any such amount payable will be derived pro rata from the Class B Shares issued pursuant to the Purchase Agreements and the entitlement to receive Ordinary Shares to be issued pursuant to the CCA. For so long as rights to receive shares pursuant to the CCA exist (in so far as such shares have not already been issued), the right to relinquish such rights shall be divided evenly among each tranche of shares to be issued in the event of the Company's share price attaining relevant threshold levels as detailed in the CCA.

Each of the Pearl Group Sellers and the Opal Re Sellers are severally liable to the Company for any warranty given by the Pearl Group Sellers in the Pearl SPA. This means they are not liable under the Pearl SPA in respect of any claim for an amount in excess of a proportion of such claim equal to the proportion of the shares in the Company issued or to be issued to them pursuant to the Purchase Agreements and/or the CCA divided by the total number of shares received by or to be issued to each of them pursuant to the Purchase Agreements and/or the CCA.

For the purposes of liability for breach of warranty claims under the Pearl SPA, Pearl Group Sellers also includes Friends Provident International Limited (Professional Portfolio 712132) in the case of Hugh Osmond and Friends Provident International Limited (Professional Portfolio 712134) in the case of Alan McIntosh plus any shares in the Company issued pursuant to the CCA (described in "Contingent Consideration Agreement" below).

The Amended Contingent Consideration Agreement (described in "—Amended Contingent Consideration Agreement") is expected to provide that the rights of the parties to bring claims under the Pearl SPA shall cease (other than in connection with the obligations of the Sellers not to compete with the Company and not to solicit employees).

7.3 Opal Re SPA

(a) Structure of the Opal Re Acquisition

The Opal Re SPA, which was signed on 27 June 2009, provided for the acquisition by the Company of all of the outstanding equity interests of Opal Re in exchange for Class B Shares of the Company.

The Opal Re Sellers are O-Re Holdings UK Limited and O-Re Holdings (Netherlands) B.V. The provisions of the Pearl SPA described above are substantially similar in the Opal Re SPA.

(b) Warranties

The Opal Re SPA contains a number of warranties made by the Opal Re Sellers, on the one hand, and the Company, on the other hand, to each other. The warranties contained in the Opal Re SPA are substantially the same as the warranties contained in the Pearl SPA, except as follows:

- the warranty made by the Opal Re Sellers relating to employment and employee benefits matters is more limited than in the Pearl SPA because of the limited number of employees of Opal Re;
- the warranty made by the Opal Re Sellers relating to pension arrangements is more limited than that in the Pearl SPA, again because of the limited number of employees of Opal Re; and
- the warranties made by the Company do not include warranties as to the Company's trust account.

(c) Liability for breaches of warranties

As in the Pearl SPA, the Pearl Group Sellers and the Opal Re Sellers are severally liable to the Company for all damages arising from any breach of any warranty made by the Opal Re Sellers in the Opal Re SPA. The Company is liable to the Opal Re Sellers for all damages arising from any breach of any warranty made by the Company in the Opal Re SPA. Claim thresholds, baskets, caps and procedures are substantially the same as those in the Pearl SPA.

The seller of Opal Re under the Opal Re SPA is O-Re Holdings (Netherlands) B.V., which is a wholly owned subsidiary of O-Re Holdings UK Limited. O-Re Holdings (Netherlands) B.V. distributed by way of sale all of the shares in the Company issued to it in consideration for its shares in Opal Re to O-Re Holdings UK Limited. Upon completion of this sale O-Re Holdings (Netherlands) B.V. was released from all obligations under the Opal Re SPA and all of its rights and obligations under the Opal Re SPA are rights and obligations of O-Re Holdings UK Limited.

(d) Amendment to the Contingent Consideration Agreement

The Amended Contingent Consideration Agreement (described in ''—Amended Contingent Consideration Agreement'') is expected to provide that the rights of the parties to bring claims under the Opal Re SPA shall cease (other than in connection with the obligations of the Sellers not to compete with the Company and not to solicit employees).

7.4 Contingent Consideration Agreement (''CCA'')

In addition to the Class B Shares issued pursuant to the Purchase Agreements, the Company and the Sellers entered into the CCA, dated 27 June 2009, pursuant to which the Company agreed to issue up to 26,500,000 Ordinary Shares credited as fully paid up to the CCA Sellers and the Selling Shareholders under the following circumstances:

- 8,833,333 Ordinary Shares will be issued within three trading days of the volume weighted average price of the Company's Ordinary Shares attaining, and remaining above for 20 consecutive trading days, €13 per share;
- 8,833,333 Ordinary Shares will be issued within three trading days of the volume weighted average price of the Company's Ordinary Shares attaining, and remaining above for 20 consecutive trading days, €14 per share; and
- 8,833,334 Ordinary Shares will be issued within three trading days of the volume weighted average price of the Company's Ordinary Shares attaining, and remaining above for 20 consecutive trading days, €15 per share.

The Ordinary Shares to be issued pursuant to the CCA are not payable until the first anniversary after the completion of the Acquisition, regardless of whether the above conditions for issuance have been satisfied. If any or all of the threshold prices are achieved during the period leading up to the first anniversary, the Company will issue the applicable number of Ordinary Shares on the business day following the first anniversary. Notwithstanding the foregoing, the Ordinary Shares to be issued under the CCA become payable immediately prior to a change of control of the Company or a sale of all or substantially all of the assets of the Company.

The threshold prices in the CCA, pursuant to which the Ordinary Shares become issuable, are subject to adjustment pursuant to certain standard anti-dilution provisions. The number of Ordinary Shares issuable under the CCA is subject to adjustment pursuant to anti-dilution provisions relating to changes in share capital and issuance of bonus shares. In addition, but to the exclusion of other anti-dilution provisions, the threshold prices in the CCA are subject to adjustment in the event that dividends are paid which are attributable to ordinary course trading revenue. To that end, the threshold prices will be reduced by 50 per cent. of the amount of each dividend paid per share during the first two years following the completion of the Acquisition, by 75 per cent. of the amount of each dividend paid per share during the third year following the completion of the Acquisition and by 100 per cent. of each dividend paid per share each year thereafter.

Under the CCA, the Company has agreed to use all reasonable endeavours to obtain admission to trading on the main market of the London Stock Exchange (or failing that, Euronext) of any Shares which it issues pursuant to the CCA.

Each of the CCA Sellers has the one-time irrevocable right to elect to convert, in respect of the Shares that may be issued to it pursuant to the CCA, the base currency for the threshold prices above from euros to pounds sterling.

The CCA terminates seven years following the completion of the Acquisition.

The Contingent Consideration Agreement will be amended pursuant to the terms of the Amended Contingent Consideration Agreement (described in "—Amended Contingent Rights Agreements").

7.5 Sellers' Relationship Agreement

The Company has entered into a Relationship Agreement with the SRA Sellers, dated 27 June 2009 (as amended, the "Sellers' Relationship Agreement") which sets out arrangements between the Company, the SRA Sellers and the Selling Shareholders. The Sellers' Relationship Agreement is governed by English law and became effective at closing of the Acquisition.

(a) Listing of Shares

Under the Sellers' Relationship Agreement, the Company has agreed to use all reasonable endeavours to cause all of the Ordinary Shares of the Company, or any successor holding company, including those into which the Class B Shares will convert, to be admitted to trading on the main market of the London Stock Exchange on or before 30 June 2010, or such later date as the Company and the SRA Sellers may agree.

If the Company has not been able to obtain admission of the Ordinary Shares to the Official List and to trading on the London Stock Exchange by 30 June 2010, it is then required to use all reasonable endeavours to cause the Ordinary Shares held by the SRA Sellers and the Selling Shareholders (including any Class B Shares which will be converted into Ordinary Shares) which have not been admitted to trading on Euronext Amsterdam or the London Stock Exchange at such date to be admitted to trading on Euronext Amsterdam (or any other stock exchange on which the Company's Ordinary Shares may then be listed or traded) by 30 September 2010.

Prior to the admission of the Ordinary Shares to trading on the main market of the London Stock Exchange, it must use all reasonable endeavours to maintain the listing of its Ordinary Shares on Euronext Amsterdam.

(b) Orderly market

The SRA Sellers have agreed to, and have agreed to cause the Selling Shareholders to, effect any disposal of the Ordinary Shares, or the Class B Shares which are to be converted into Ordinary Shares, held by them on a best price and execution basis and in such orderly manner as the Company may reasonably require, and through the Company's broker from time to time with a view to maintaining an orderly market in the Company's Shares.

(c) Corporate governance

As required by the Sellers' Relationship Agreement, Hugh Osmond and Manjit Dale were appointed as Directors on closing of the Acquisition.

In addition, under the Sellers' Relationship Agreement, the SRA Sellers and the Selling Shareholders have the right to nominate a person for appointment by each of PGH2 and Phoenix Life Holdings as a non-executive director of PGH2 and Phoenix Life Holdings respectively subject to the fact that, prior to such nomination, the SRA Sellers and the Selling Shareholders must consult with the Company in good faith as to the suitability of such candidate. Further, the SRA Sellers and the Selling Shareholders will not be entitled to nominate or appoint any individual who has any material connections with any business which is a material competitor to the Group's business or who the Company reasonably considers is likely to be adverse to the interests of the Group.

(d) Pre-emptive rights

Under the Sellers' Relationship Agreement, the Company has provided pre-emptive rights to the SRA Sellers and the Selling Shareholders which are the same as the pre-emptive rights granted to the Lenders under the Lender Relationship Agreement (see Part XI: "Additional Information—Material Contracts—Lender Relationship Agreement—Pre-emptive Rights").

(e) Capital distributions

Under the Sellers' Relationship Agreement, the Company has agreed not to declare, make or pay any Capital Distributions (as defined in the CCA and which term excludes any dividends payable out of distributable profits arising from ordinary course trading revenues of the Group) without the prior consent of the SRA Sellers and the Selling Shareholders for so long as the CCA remains in effect.

(f) Amendment to the Sellers Relationship Agreement

The Sellers Relationship Agreement will be amended pursuant to the terms of the Amended Contingent Rights Agreements (described in "—Amended Contingent Rights Agreements") to limit the Sellers' pre-emption rights to Ordinary Shares that have been issued to the Sellers.

7.6 Contingent Subscription Agreement

Under a Contingent Subscription Agreement entered into by the Company and Berggruen Holdings II Ltd, and Marlin Equities IV, LLC on 27 June 2009 (as amended, the "Contingent Subscription Agreement"), the Company may be required to issue to Berggruen Holdings II Ltd, and Marlin Equities IV, LLC or such third parties as they direct an additional 1,000,000 Class B Shares. The Company will only be required to issue these additional Shares at such time as the third tranche of Shares become issuable under the CCA. In addition, such Shares will be subject to the adjustment provisions set forth in the CCA as if such provisions applied to such fee shares. The Shares will be issued to Berggruen Holdings II Ltd, and Marlin Equities IV, LLC either pro rata to the number of Class B Shares actually subscribed for by Berggruen Holdings II Ltd, and Marlin Equities IV, LLC or their designees or, if Berggruen Holdings II Ltd, and Marlin Equities IV, LLC are not required to subscribe for such Class B Shares, then as otherwise agreed by Berggruen Holdings II Ltd, and Marlin Equities IV, LLC.

The Contingent Subscription Agreement will be amended pursuant to the terms of the Amended Contingent Subscription Agreement (described in "—Amended Contingent Rights Agreements").

7.7 Opal Re funding and Dividend Contribution Agreement

The Company, Opal Re and ABN AMRO N.V., London Branch ("ABN AMRO"), as agent for the Pearl Lenders, have entered into the Opal Re Contribution Agreement, dated 27 June 2009, which is governed by English law. Immediately following completion of the Acquisition, the Company paid to Opal Re, by way of capital contribution, the sum of £60 million. Opal Re has agreed that it shall use the capital contribution of £60 million in performing its obligations under any reinsurance agreements in force from time to time between Opal Re and any of Pearl Assurance, London Life and NPI.

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

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

7.8 Credit Facilities

In connection with the closing of the Acquisition, the Group's two existing credit facilities were amended and restated as summarised below.

(a) Pearl Facility

The Pearl Borrowers are borrowers under a facility agreement dated 15 November 2006 as amended and restated (the "Pearl Facility Agreement") entered into with the Pearl Lenders, the bookrunners, the arrangers, the Pearl Facility Agent and the security trustee described therein.

Upon completion of the Acquisition, the £825 million principal amount outstanding under the Pearl Facility Agreement was restructured as follows:

- the Pearl Lenders assigned to the Company all their rights, title, interest and benefit in and to £325 million of principal due under the Pearl Facility Agreement (the "Company Subordinated Debt") (subject to such debt being unsecured and subordinated as described below). Upon assignment, such amount no longer constituted part of the Pearl Facility and the Company has no rights as a lender under the Pearl Facility Agreement nor under any security granted by the Pearl Borrowers pursuant thereto. The Company Subordinated Debt may be waived, capitalised or left in place;

- the Pearl Borrowers satisfied and discharged £75 million of principal due under the Pearl Facility Agreement by issuing to the Pearl Lenders the Lender Loan Notes; and
- a principal amount of £425 million remains outstanding under the Pearl Facility Agreement.

(i) Company Subordinated Debt

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

(ii) Lender Loan Notes

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

The principal amount of the Lender Loan Notes is repayable in one instalment on 2 September 2024 (the "Maturity Date"), being the fifteenth anniversary of the date of the Lender Loan Notes. The Maturity Date may be postponed at the option of any holder of Lender Loan Notes upon the occurrence of certain events, including without limitation certain mergers, reorganisations or asset dispositions by the Company (a "Major Transaction").

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

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

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

(iii) Pearl Facility Agreement

The outstanding principal amount under the Pearl Facility Agreement is £425 million (the "Pearl Senior Debt") with a maturity date of 30 June 2016 (the "Termination Date"). The Pearl Senior Debt is repayable in annual instalments of £25 million on 30 June of each year from 2011 through 2015, with £300 million (or such lesser amount as may then be outstanding) due and payable on the Termination Date. Neither Pearl Borrower is permitted to reborrow any part of the Pearl Senior Debt which has already been repaid. The Pearl Borrowers may from time to time voluntarily prepay the Pearl Senior Debt in whole or in part with a minimum prepayment of £2 million. Any prepayment must be made with any accrued interest on the amount to be repaid. The Pearl Senior Debt is subject to mandatory prepayments from surplus cash (as described below) and other specified proceeds.

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

(iv) Restricted distributions and payments

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

- pay, repay or prepay any principal, interest or other amount in respect of (x) outstanding debts between the Company and the Pearl Borrowers or (y) indebtedness owing to the Company, certain other shareholders and other related parties (collectively, the "Restricted Persons"); or

- make any investment in, or pay any fee, or make an advance or other payment to, any Restricted Person.

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

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

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

- an amount of up to £2.5 million per annum for payment of head office and administrative costs of the Company;
- during each of 2010 and 2011, payment to the Company of up to £46.0 million in each year from surplus cash (defined in the Pearl Facility Agreement as "Surplus Amount", being certain net cash flows after inter alia capital and debt servicing and subject to a buffer of £50 million). If surplus cash in a year exceeds £46.0 million, all excess amounts shall be applied in mandatory prepayment of the Pearl Senior Debt;
- during 2012 and each year thereafter, payment to the Company of up to £57.5 million in each year from surplus cash (as similarly defined). If surplus cash in a year exceeds £57.5 million, all excess amounts shall be applied in mandatory prepayment of the Pearl Senior Debt.

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

- no default is continuing under the Pearl Facility Agreement;
- none of the specified financial covenants have been breached (including certain financial covenants the breach of which will not be an event of default under the Pearl Facility Agreement but which will prevent payments being made to the Company (a "Payment Suspension"));
- delivery to the Pearl Facility Agent of financial information and certificates relating to the Pearl Covenant Group as at the most recent semi-annual calculation date;
- all amounts of interest outstanding in relation to the Pearl Facility Agreement have been paid;
- the amount of the payment is not such that, if the payment had been made immediately prior to the most recent semi-annual calculation date, the value of the assets in the accounts of Phoenix Life Holdings would be less than the value required to be retained by Phoenix Life Holdings under a subordinated loan facility agreement entered into with certain of its life company subsidiaries (the "Subordinated Loan Facility Agreement");
- the FSA has not varied or cancelled the authorisation of any material member of the Pearl Covenant Group or imposed any other requirement or taken other actions, which would reasonably be expected to prevent any material member of the Pearl Covenant Group from making a payment to any other member of the Pearl Covenant Group or any Pearl Borrower from making any required payment to the Pearl Lenders.

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

(v) Representations, warranties and covenants

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

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

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

- ensure that the financial covenants are met, including that:
  - (i) at each semi-annual calculation date falling on or after 30 June 2010 and on or before 31 December 2011 the ratio of (a) the aggregate principal amount of the Pearl Senior Debt and Lender Loan Notes to (b) the sum of the embedded value of the Pearl Covenant Group, adjusted by liabilities to/surplus in respect of the Pearl Group Staff Pension Scheme, minus the lower of £600 million and the gilts-based deficit of the Pearl Group Staff Pension Scheme, is less than 75 per cent. and for subsequent semi-annual calculation dates after 31 December 2011 is less than 70 per cent.;
  - (ii) at each monthly calculation date falling on or before 31 December 2011 the ratio of (a) the aggregate principal amount of the Pearl Senior Debt, the Lender Loan Notes and the net mark-to-market value of the hedging relating to the Pearl Senior Debt to (b) the sum of the embedded value of the Pearl Covenant Group plus the amount owed to Phoenix Life Holdings under the Subordinated Loan Facility Agreement to the extent not included in determining the embedded value of the Pearl Covenant Group plus the aggregate value of assets held in the accounts of Phoenix Life Holdings minus 1.3x the amount of any security claim of the pension trustee in respect of the Pearl Group Staff Pension Scheme, is less than 130 per cent. and for subsequent monthly calculation dates after 31 December 2011 is less than 120 per cent.;
  - (iii) at each semi-annual calculation date falling on or after 30 June 2010, for the relevant projection period the ratio of (a) certain projected Pearl Covenant Group cash flows and free cash to (b) certain scheduled Pearl Covenant Group debt payment obligations is greater than 125 per cent.;
  - (iv) at each semi-annual calculation date falling on or after 30 June 2010, for the relevant period the ratio of (a) certain Pearl Covenant Group historical cash flows to (b) certain Pearl Covenant Group historical debt service is greater than 105 per cent.;
- ensure that the capital resources of each insurance subsidiary are greater than the higher of its capital resources requirement and its ICA requirement;
- ensure that the aggregate capital resources of the insurance subsidiaries exceed the aggregate of (a) the aggregate ICA requirement of the insurance subsidiaries and (b) the aggregate ICG requirement of the Pearl Covenant Group; and
- ensure that the EEA GCR is greater than 105 per cent. of the EEA GCRR.

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

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

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

(vi) Events of default

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

- a Pearl Borrower fails to pay any amount payable pursuant to the Pearl Facility Agreement or related finance documents (and such default, if caused by an administrative error only, is not cured within three business days);
- a breach of certain financial covenants subject to a 45-day grace period in certain cases or an equity cure right in others;
- a Pearl Borrower does not comply with any other provision of the Pearl Facility Agreement or related finance documents (and such failure to comply is not cured within 15 business days);
- any representation or statement made or deemed to be made by a Pearl Borrower in the Pearl Facility Agreement or related finance documents or security documents is incorrect or misleading (and such misrepresentation is not cured within 15 business days);
- certain default, acceleration and/or cancellation events with regard to other financial indebtedness of members of the Pearl Covenant Group or of lender commitments with respect thereto (provided that the aggregate amount of relevant indebtedness or commitment is £5.0 million or more);
- certain bankruptcy or insolvency events occur with respect to a Pearl Borrower or a material subsidiary;
- any expropriation, attachment or analogous process affects any material asset of a Pearl Borrower or a material subsidiary in relation to indebtedness of at least £5.0 million and is not discharged within 15 business days;
- any security document or any guarantee in or any subordination under the Pearl Facility Agreement or certain related finance documents is not in full force and effect or any security document does not create for the benefit of the Pearl Lenders the security which it is expressed to create;
- any party (other than a Pearl Lender or a hedging bank) fails to comply with its obligations under the Pearl Intercreditor Agreement (as defined below) and, in the opinion of two-thirds of the Pearl Lenders, the interests of the Pearl Lenders under the Pearl Facility Agreement or any related finance document are materially prejudiced by such failure;
- any Pearl Borrower repudiates or evidences an intention to repudiate the Pearl Facility Agreement or any related financing document;
- any material subsidiary ceases to be a wholly-owned subsidiary of Phoenix Life Holdings;
- any of the constitutional documents of a Pearl Borrower, certain agreements relating to Opal Re or the Subordinated Loan Facility Agreement are terminated or breached or amended in a manner that would reasonably be expected to be materially adverse to the interests of the Pearl Lenders;
- any person (other than a Pearl Lender) breaches or repudiates any of the Contingent Fee Agreement, the Implementation Agreement or certain other agreements (unless remedied within any originally applicable grace periods under such documents);
- any party (other than a Pearl Lender or Impala Lender or a hedging bank) to the Lender Relationship Agreement breaches certain specified provisions of the Lender Relationship Agreement (unless remedied within the specified grace period);
- the auditors of the Pearl Covenant Group qualify their report on any audited consolidated financial statement of the Pearl Covenant Group or any audited financial statement of any Pearl Borrower in a manner and to an extent considered by the majority Pearl Lenders to be materially adverse to their interests under the finance documents;
- any litigation, arbitration, proceeding or dispute is started or threatened or there are any circumstances likely to give rise to any such proceeding, in each case which is reasonably likely to be adversely determined and would reasonably be expected to have a material adverse effect; and
- any event or circumstance occurs which has or would have a material adverse effect on or a material adverse change in the financial condition, assets or business of the Pearl Covenant Group taken as a whole, the ability of either Pearl Borrower to comply with its payment obligations or the financial covenants under the Pearl Facility Agreement, the validity, legality

or enforceability of the Pearl Facility Agreement or certain related financing documents or the validity, legality or enforceability of any security expressed to be created under the related security documents or the priority of any such security.

If an event of default occurs the Pearl Lenders may cancel their commitments and/or declare the loans immediately due and payable and/or payable on demand. In addition they may enforce their security referred to below.

(vii) Guarantees and security

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

(viii) Intercreditor Agreement

The Pearl Borrowers have entered into an amended and restated Intercreditor Agreement (the "Pearl Intercreditor Agreement") with certain parent entities and other members of the Pearl Covenant Group, the Pearl Lenders, the Pearl Facility Agent, the security trustee and the counterparties to certain hedging agreements entered into with certain members of the Pearl Covenant Group. The Pearl Intercreditor Agreement provides that the obligations of the Pearl Borrowers under the Pearl Senior Debt and such hedging agreements are senior in right of payment to the Lender Loan Notes, the Company Subordinated Debt and all other intercompany debt of the Company and its subsidiaries (the "Company Intercompany Debt"). The Lender Loan Notes are subordinated to the Pearl Senior Debt, but senior to the Company Subordinated Debt and all other Company Intercompany Debt. Neither the holders of the Lender Loan Notes nor the holders of any Company Intercompany Debt may take any enforcement action or certain other specified actions with respect to such indebtedness so long as the Pearl Senior Debt is outstanding without the consent of the holders of two-thirds of the outstanding principal amount of the Pearl Senior Debt. Following the retirement of the Pearl Senior Debt and so long as any Lender Loan Notes remain outstanding, the holders of Company Intercompany Debt may not take any enforcement action or certain other specified actions with respect to such indebtedness without the consent of the holders of two-thirds of the outstanding principal amount of the Lender Loan Notes.

(b) Impala Facility

The Impala Borrowers are borrowers under a facility agreement dated 10 October 2007 as amended and restated (the "Impala Facility Agreement") entered into with Impala Borrowers, the Impala Lenders, the bookrunners, the arrangers, the Impala Facility Agent and the security trustee described therein. Upon completion of the Acquisition, the Impala Facility Agreement was further amended and restated.

The Impala Borrowers together own 25 per cent. of Impala and PGH2 owns 75 per cent. of Impala.

(i) Impala Facility Agreement

Following a repayment of £22 million in April 2010, the outstanding principal amount under the Impala Facility Agreement is £2,238 million (the "Impala Senior Debt") comprising the following three tranches:

- Facility A in the amount of £1,253 million with a maturity date of 30 November 2014 ("Facility A Termination Date");
- Facility B in the amount of £492.5 million with a maturity date of 30 November 2015; and
- Facility C in the amount of £492.5 million with a maturity date of 30 November 2016.

Facility A is repayable in equal semi-annual instalments of £62.5 million, starting on 30 April 2011 through 31 October 2014, with the remaining balance due and payable on the Facility A Termination Date. Facility B and Facility C are repayable in single instalments on the relevant maturity date. The Impala Borrowers may from time to time voluntarily prepay the Impala Senior Debt in whole or in part, with a minimum prepayment of £2 million. The Impala Borrowers may not reborrow any amount under any of the facilities that has already been repaid. The Impala Senior Debt is subject to mandatory prepayments from surplus cash (as described below) and other specified proceeds. Both voluntary and mandatory prepayment shall be applied first to prepay the Facility A loans in full, second to prepay the Facility B loans in full and last to prepay the Facility C loans in full.

The Impala Borrowers have agreed, subject to a number of provisos, to make voluntary prepayments of the Impala Senior Debt on or prior to 31 December 2010 in a total aggregate amount of £100 million *less* any amounts applied in mandatory prepayment of the Impala Senior Debt after 30 June 2010. These provisos are:

- such voluntary prepayments being funded from available cash which has not otherwise been committed by the Impala Covenant Group in the working capital report produced in connection with Admission;
- the Impala Covenant Group not being projected to be in breach of any financial covenants within 12 months after the proposed date of the voluntary prepayments (assuming such voluntary payments are made);
- the making of such voluntary prepayments not causing the Impala Borrowers to default in meeting the Facility A semi-annual repayment instalments due on 30 April 2011 and 31 October 2011;
- the making of such voluntary prepayments not being illegal or in breach of any applicable law or authorisation; and
- following the making of such voluntary prepayments, the Impala Borrowers and all material subsidiaries not having any material uncertainties that may cast significant doubt on their ability to continue as a going concern, consistent with the approach taken for the financial statements for the financial year ended 31 December 2009 and in accordance with certain guidance from the UK Financial Reporting Council.

Any such voluntary prepayments which are paid, as may be reduced by the above provisos, will be applied against the Facility A repayment instalments due on the Facility A Termination Date.

Until 2 September 2013, the tranches will bear interest as follows:

- Facility A: the sum of LIBOR plus 1 per cent. per annum plus 1 per cent. per annum PIK margin plus mandatory costs. Mandatory costs compensate the Impala Lenders for the costs of compliance with the requirements of the Bank of England, the FSA and/or the European Central Bank.
- Facility B: the sum of LIBOR plus 1.25 per cent. per annum plus 0.75 per cent. per annum PIK margin plus mandatory costs.
- Facility C: the sum of LIBOR plus 1.75 per cent. per annum plus 0.25 per cent. per annum PIK margin plus mandatory costs.

Prior to 2 September 2012, any unpaid interest in respect of the PIK margin will be capitalised and added to the relevant principal amount, accruing interest as though it were part of such principal amount.

From and after 2 September 2013, the tranches will bear interest as follows:

- Facility A: the sum of LIBOR plus 2.5 per cent. per annum plus mandatory costs.
- Facility B: the sum of LIBOR plus 3.25 per cent. per annum plus mandatory costs.
- Facility C: the sum of LIBOR plus 3.75 per cent. per annum plus mandatory costs.

(ii) Restricted distributions and payments

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

- pay, repay or prepay any principal amount, interest or other amount in respect of (x) outstanding debts between the Company and the Impala Borrowers, (y) indebtedness owing to the Company, certain other shareholders and other related parties (collectively, the ''Restricted Persons''), or (z) any of the Tier 1 Bonds, save for (subject to the conditions described below) an annual coupon payment of up to 6.5864 per cent. per annum on the Tier 1 Bonds not held by any Restricted Person or any member of the Group (unless held on behalf of third parties) becoming payable on or after 25 April 2010 (each a ''Permitted Coupon''); or
- make any investment in, of pay any fee, or make an advance or other payments to, any Restricted Person.

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

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

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

- an amount of up to £2.5 million per annum for payment of head office and administrative costs of the Company;
- during each of 2010 and 2011, payment to the Company of an amount of up to 66 2/3 per cent. in each year of surplus cash (defined in the Impala Facility Agreement as "Surplus Amount", being certain net cash flows after inter alia capital and debt servicing and subject to a buffer of £100 million) provided that:
  - (i) the maximum amount payable by the Impala Borrowers to the Company in each such year is capped at an aggregate amount equal to the lesser of:
    - (A) £11.5 million plus "X" (where "X" is the amount by which (i) the amount which the Company is permitted to receive from the Pearl Borrowers under the Pearl Facility Agreement in the same year is less than (ii) £46.0 million); and
    - (B) £38.3 million;
  - (ii) an amount equal to 50 per cent. of the amount that the Impala Borrowers are permitted to pay the Company shall be applied in mandatory prepayment of the Impala Senior Debt; and
  - (iii) the balance of surplus cash shall be applied in mandatory prepayment of the Impala Senior Debt;
- during 2012 and each year thereafter, payment to the Company of an amount of up to 50 per cent. in each year of surplus cash (as similarly defined) provided that:
  - (i) the maximum amount payable by the Impala Borrowers to the Company in each such year is capped at an aggregate amount equal to the lesser of:
    - (A) £14.4 million plus "X" (where "X" is the amount by which (i) the amount which the Company is permitted to receive from the Pearl Borrowers under the Pearl Facility Agreement in the same year is less than (ii) £57.5 million); and
    - (B) £47.9 million;
  - (ii) an amount equal to the amount that the Impala Borrowers are permitted to pay the Company shall be applied in mandatory prepayment of the Impala Senior Debt; and
  - (iii) the balance of surplus cash shall be applied in mandatory prepayment of the Impala Senior Debt.

Other than the £2.5 million per annum head office and administrative costs, no payments may be made to the Company, or in respect of a Permitted Coupon, unless the following conditions are satisfied:

- no default is continuing under the Impala Facility Agreement;
- none of the specified financial covenants have been breached (including certain financial covenants, the breach of which will not be an event of default under the Impala Facility Agreement, but which will prevent payments being made to the Company) (a "Payment Suspension");
- delivery to the Impala Facility Agent of financial information and certificates relating to the Impala Covenant Group as at the most recent semi-annual calculation date;
- all amounts of interest outstanding in relation to the Impala Facility Agreement have been paid and there has been no capitalisation of PIK margin prior to 2 September 2012;
- where the payment is to be made to the Company the amount of the payment is not such that, if the payment had been made immediately prior to the most recent semi-annual calculation date, the value of the assets held in the accounts of Impala would be less than the value required to be retained by Impala in accordance with any requirement of the FSA;

- where the payment is to be made in respect of a Permitted Coupon, the amount of the payment is not such that the value of the assets held in the accounts of Impala at the time of such payment would be less than the value required to be retained by Impala in accordance with any requirement of the FSA;
- the FSA has not varied or cancelled the authorisation of any material member of the Impala Covenant Group or imposed any requirement, or taken other actions, which would reasonably be expected to prevent any material member of the Impala Covenant Group from making a payment to any other member of the Impala Covenant Group or any Impala Borrower from making any required payment to the Impala Lenders.

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

(iii) Representations, warranties and covenants

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

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

- provide to the Impala Facility Agent annual and semi-annual financial statements and relevant compliance certificates relating to (among other things) compliance with financial covenants;
- provide monthly certificates giving financial information;
- maintain all Impala group pension schemes substantially in accordance with the governing provisions of such scheme where failure to do so would reasonably be expected to have a material adverse effect;
- ensure that the financial covenants are met, including that:
  - (i) at each semi-annual calculation date the ratio of (a) the aggregate principal amount of the Impala Senior Debt and the net mark-to-market value of the hedging relating to the Impala Senior Debt to (b) the sum of the embedded value of the Impala Covenant Group adjusted by liabilities to/surplus in respect of the PGL Pension Scheme minus the pension deficit in respect of the PGL Pension Scheme, is less than a specified percentage ranging from 77.5 per cent. in 2010 to 65 per cent. on 30 June 2015 and subsequent semi-annual calculation dates thereafter;
  - (ii) at each semi-annual calculation date falling on or after 30 June 2010, for the relevant projection periods the ratio of (a) certain projected Impala Covenant Group cash flows and free cash to (b) certain scheduled Impala Covenant Group debt payment obligations is greater than 105 per cent.; and
  - (iii) at each semi-annual calculation date falling on or after 30 June 2010, for the relevant period the ratio of (a) certain Impala Covenant Group historical cash flows to (b) certain Impala Covenant Group historical debt service is greater than 105 per cent.
- ensure that the capital resources of each insurance subsidiary are greater than the higher of its capital resources requirement and its ICA requirement;
- ensure that the aggregate capital resources of the insurance subsidiaries exceed the aggregate of (a) the aggregate ICA requirement of the insurance subsidiaries and (b) the aggregate ICG requirement of the Impala Covenant Group; and
- ensure that the EEA GCR is greater than 105 per cent. of the EEA GCRR.

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

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

- amalgamation, demerger, merger, consolidation or corporate reconstruction (other than a permitted merger) as set out in the Impala Facility Agreement;
- changes in business (including underwriting any new business that is not long-term insurance business);

- acquisitions, investments, loans and guarantees;
- entering into, or investing in, any joint venture;
- granting security over any assets;
- asset dispositions;
- amending certain inter-company loan agreements or entering into outsourcing arrangements;
- entering into certain hedging arrangements;
- entering into or amending certain reinsurance arrangements; and
- transactions with affiliates.

(iv) Events of default

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

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

- the auditors of the Impala Covenant Group qualify their report on any audited consolidated financial statement of the Impala Covenant Group or any audited financial statement of any Impala Borrower in a manner and to an extent considered by the majority Impala Lenders to be materially adverse to their interests under the finance documents;
- any litigation, arbitration, proceeding or dispute is started or threatened or there are any circumstances likely to give rise to any such proceeding, in each case which is reasonably likely to be adversely determined and would reasonably be expected to have a material adverse effect; and
- any event or circumstance occurs which has or would have a material adverse effect on or a materially adverse change to: the financial condition, assets or business of the Impala Covenant Group taken as a whole, the ability of either Impala Borrower to comply with its payment obligations or financial covenants under the Impala Facility Agreement, the validity, legality or enforceability of the Impala Facility Agreement or certain related financing documents or the validity, legality or enforceability of any security expressed to be created under the related security documents or the priority of any such security.

If an event of default occurs the Impala Lenders may cancel their commitments and/or declare the loans immediately due and payable and/or declare the loans payable on demand. In addition they may enforce their security referred to below.

(v) Guarantees and security

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

(vi) The Impala Intercreditor Agreement

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

7.9 Lender Relationship Agreement

The Company entered into a lender relationship agreement with the Lenders which also hold shares in the Company (collectively, the "Lender Shareholders") dated 27 June 2009 (as amended, the "Lender Relationship Agreement"). The Lender Relationship Agreement is governed by English law and became effective at completion of the restructuring of the credit facilities described above (the "Debt Restructuring").

(a) Listing of Shares

Under the Lender Relationship Agreement, the Company has agreed to use all reasonable endeavours to cause all of the Ordinary Shares of the Company, or any successor holding company, including those into which the Class B Shares will convert, to be admitted to trading on the main market of the London Stock Exchange on or before 30 June 2010, or such later date as the Company and the Lender Shareholders may agree. Prior to such listing, the Company must consult and agree with the Lender Shareholders how any proceeds raised from the issue of new Ordinary Shares in connection with such listing are to be used.

If the Company has not been able to list its Ordinary Shares on the London Stock Exchange on or before 30 June 2010, it is then required to use all reasonable endeavours to cause the Ordinary Shares held by the Lender Shareholders (including those into which any Class B Shares will convert) which have not been admitted to trading on Euronext or the London Stock Exchange to be admitted to trading on Euronext Amsterdam (or any other stock exchange on which the Ordinary Shares may then be listed or traded) by 30 September 2010.

Prior to admission of the Ordinary Shares to the Official List and to trading on the main market of the London Stock Exchange, the Company must use all reasonable endeavours to maintain the listing of the Ordinary Shares on Euronext Amsterdam.

(b) Lock-up of Shares

Each of the Lender Shareholders and their affiliates have agreed that, during the period commencing on completion of the Acquisition and ending on the first anniversary of completion (the ''Restricted Period''), it will not dispose of any interest in the shares, other than certain excluded shares (described below), issued to it at completion of the Acquisition pursuant to the Implementation Agreement, other than to an affiliate. Such restriction will terminate upon the occurrence of a change of control of the Company.

Notwithstanding the restrictions above, a Lender Shareholder may sell up to 50 per cent. of its shares during the Restricted Period to the extent a Lender Shareholder is required to pay taxes in respect of shares issued to it under the Implementation Agreement.

In addition, the restrictions above do not apply to the following excluded securities: (i) 937,380 Ordinary Shares and 452,620 Class B Shares that were issued by the Company to the Pearl Lenders; (ii) 2,562,620 Ordinary Shares and the 1,237,380 Class B Shares that were issued by the Company to the Impala Lenders; and (iii) those Class B Shares that were issued upon exercise of the Lenders Warrants and the Ordinary Shares into which such Class B Shares may be converted. However, the Lender Shareholders have agreed to effect any disposal of such excluded securities on a best price and execution basis through the Company's broker for the time being and in an orderly manner with a view to maintaining an orderly market in the Ordinary Shares.

(c) Corporate governance and related matters

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

Notwithstanding that the Company is not required by the Listing Rules to comply with the Combined Code, the Company must comply as far as reasonably practicable with the main principles, supporting principles and provisions of the Combined Code, except to the extent that doing so would conflict with the Company's obligations under the Lender Relationship Agreement.

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

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

If the person appointed as the chief executive officer of the Group ceases to hold office for any reason prior to the earlier of (i) the expiration of 12 months from completion of the Acquisition and (ii) the date the Ordinary Shares are approved for listing on either the main market of the London Stock Exchange or Euronext Amsterdam, the Company must consult with the Lender Shareholders as to the choice of candidates for such office and use all reasonable endeavours to appoint a replacement within three months. The appointment by the Company of any chief executive officer (including any interim or acting chief executive officer) during such period must be approved by the Lender Shareholders.

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

- to nominate a person for appointment by the Board as a Non-Executive Director (the ''Lender Non-Executive Director''), and to nominate any replacement thereof;
- to nominate a person, expected to be the Lender Non-Executive Director, for appointment by the Board to serve on all committees of the Group's boards, and to nominate any replacement thereof;

- to nominate a person for appointment by PGH2 and Phoenix Life Holdings as a non-executive director of PGH2 and Phoenix Life Holdings respectively; and
- to appoint a representative to attend any meeting of the Board, or any committee thereof, as an observer (the "Observer").

Subject to the views of the FSA, the Lender Shareholders must, prior to the nomination of the Lender Non-Executive Director, the PGH2 non-executive director or the appointment of the Observer, consult with the Company as to the suitability of the candidates. The Lender Shareholders may not nominate or appoint anyone with any material connections with any material competitor to the Group or who the Company reasonably considers is likely to be adverse to the interests of the Group. The Lender Shareholders appointed the Observer on 5 November 2009.

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

- the Chairman shall, at all times, be "Independent" under the criteria set out in Provision A.3.1 of the Combined Code;
- independent Non-Executive Directors will, as soon as practicable after the completion of the Acquisition, at all times comprise no less than half of the Board;
- if any person appointed as a Lender Non-Executive Director is required under the revised Articles of Association to submit himself for re-election at any annual general meeting of the Company, the Board will include such person in the notice of such annual general meeting sent to the shareholders of the Company as being subject to re-election and the Board will not knowingly take any action to prejudice the re-appointment of such person;
- the Chairman has the powers and duties specified in the Lender Relationship Agreement (including, without limitation, the right to: (i) chair the Board and general meetings of the Company and meetings of the nomination committee, including setting the agenda of such meetings; (ii) challenge and contribute to the development of strategy; (iii) scrutinise the performance of management; (iv) satisfy himself that financial information is accurate and that financial controls and systems of risk management are robust and defensible; (v) be responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing senior management and in succession planning; and (vi) serve on the remuneration committee of the Board and attend all such committee meetings); and
- the Lender Non-Executive Director will receive copies of all correspondence with the FSA relating to the solvency position of the Company or any of its subsidiaries or the non-compliance by the Company or any of its subsidiaries with any applicable law or regulation.

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

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

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

(d) Amendment to the Articles of Association

The Lender Relationship Agreement provides that if the Company adopts any amendments to articles 29.2, 29.7 and 49 of the Articles of Association, then the Company will be in breach of the Lender Relationship Agreement. In addition, the Company must use all reasonable endeavours to prevent any amendment to the Articles of Association which would restrict the rights of the Lender Shareholders under the Lender Relationship Agreement.

(e) Pre-emptive rights

Under the Lender Relationship Agreement, the Company has agreed to provide certain pre-emptive rights to the Lender Shareholders. If any member of the Group proposes to offer, issue or grant any Relevant Securities (as defined below) for cash or no consideration or as consideration for the shares or other equity securities of an entity that was formed principally for the purpose of raising cash, such Relevant Securities may not be issued or granted unless the Company or the applicable member of the Group first offers such Relevant Securities to the Lender Shareholders (on a pro rata basis), on the same terms and at the same price (where applicable).

"Relevant Securities" means any shares of any class in any member of the Group (the "Company Shares") or securities which carry rights of conversion into or exchange or subscription for the Company Shares or any options, warrants or other rights to subscribe for or purchase or otherwise acquire the Company Shares which are issued or granted after completion of the Acquisition, other than certain specified securities and warrants, including:

- the warrants and any shares which are issued on exercise thereof;
- all the Company Shares and other securities convertible into or exchangeable or exercisable for the Company Shares which are described in this proxy and consent solicitation statement as either outstanding or to be issued at or after completion of the Acquisition and all securities arising from the conversion, exercise or exchange thereof;
- any shares or securities convertible into shares or options over shares issued or granted pursuant to any management incentive scheme that has been approved by the Company's shareholders; and
- any shares or other securities issued by one member of the Group to another member of the Group.

(f) Capital distributions

Under the Lender Relationship Agreement, the Company has agreed not to make any capital distributions (as defined in the Contingent Fee Agreement and which term excludes any dividends payable out of distributable profits arising from ordinary course trading revenues of the Group) without the prior consent of the Lender Shareholders for so long as (i) any Lender Warrants remain outstanding or (ii) the Contingent Fee Agreement remains in force.

(g) Approval mechanism

The Lender Relationship Agreement requires the Lender Shareholders to appoint an agent to exercise the rights of the Lender Shareholders under the Lender Relationship Agreement, and such agent is authorised to give or make all waivers, approvals, nominations or consents, and be party to all consultations on behalf, of the Lender Shareholders thereunder. This agent may only exercise such rights in accordance with the instructions of Lender Shareholders who together hold more than two-thirds of their aggregate commitments under the Impala Facility Agreement and the Pearl Facility Agreement.

(h) Amendment to the Lender Relationship Agreement

The Lender Relationship Agreement will be amended pursuant to the terms of the Amended Contingent Fee Agreement (as described in "—Amended Contingent Rights Agreement"). The restrictions on the Lenders' ability to transfer shares will cease and the pre-emption rights of the Lenders will be limited to shares which have been issued to them..

7.10 Implementation Agreement

The Company has entered into an Implementation Agreement dated 27 June 2009 (as amended, the "Implementation Agreement") with the Lenders, the Pearl Borrowers, the Impala Borrowers, certain Sellers and PGH2, with respect to, among other things, the implementation of certain of the transactions contemplated by the various transaction documents. The Implementation Agreement is governed by English law.

(a) Fees and issuance of Shares

In consideration for the restructuring of the Pearl Facility Agreement (as described above), the Pearl Borrowers were required to pay a fee to the Pearl Lenders or a specified designated affiliate in the amount of £17,010,000 (the "Pearl Fee"). The Implementation Agreement provided for the Pearl Fee to be satisfied by the Company's issuance to the Pearl Lenders (or at their direction) of: (i) 937,380 fully paid up Ordinary Shares; (ii) 452,620 fully paid up Class B Shares; and (iii) 500,000 additional fully up paid Class B Shares.

Upon such issuance, the Pearl Borrowers became indebted to the Company on arm's length terms for an amount equal to the Pearl Fee.

In consideration for the restructuring of the Impala Facility Agreement (as described above), the Impala Borrowers were required to pay a fee to the Impala Lenders or a specified designated affiliate in the amount of £52,200,000 (the "Impala Fee"). The Implementation Agreement provided for the Impala Fee to be satisfied by the Company's issuance to the Impala Lenders (or at their direction) of: (i) 2,562,620 fully up paid Ordinary Shares; (ii) 1,237,380 fully paid up Class B Shares; and (iii) 2,000,000 additional fully paid up Class B Shares. Upon such issuance, the Impala Borrowers became indebted to the Company on arm's length terms for an amount equal to the Impala Fee.

In addition, the Pearl Borrowers and the Impala Borrowers are required to pay the contingent fees described in the Contingent Fee Agreement (see Part XI: "Additional Information—Material Contracts—Contingent Fee Agreement").

(b) Chairman

The Implementation Agreement provided that, prior to completion, the Company was required to conduct a process, in consultation with the Lenders, to appoint a permanent Chairman of the Board (approved in advance by the Lenders).

(c) Escrow Deed

The Implementation Agreement provided that each of the Sun Capital parties who is a Seller, the Company and TDR Capital will (i) appoint an escrow agent (acceptable to the Lenders) in relation to an escrow agreement to be agreed upon by the escrow agent and (ii) execute the escrow agreement no later than completion.

The escrow agreement dated 2 September 2009 provides that any dividends declared or paid in respect of the proportion of the 38.9 million Class B Shares received by the Sellers under the Purchase Agreements (including any shares into which the B Shares convert) will be paid into escrow rather than delivered to such Sellers. The escrowed funds will be released to such Sellers on the earlier to occur of: (i) certain prepayments under the Pearl Facility Agreement and the Impala Facility Agreement or (ii) the second anniversary of the escrow agreement. The escrow agreement provides that the Sellers may not sell or transfer any interest in the Class B Shares received under the Purchase Agreements unless the relevant transferee first enters into a deed of adherence to the terms of the escrow agreement. The escrow agreement is governed by the laws of the State of New York.

(d) Termination of related party transactions and resignations

The Implementation Agreement required that, to the extent legally possible, certain agreements, transactions and arrangements specifically disclosed in the Implementation Agreement by and among the Sellers and their affiliates and the Group would be terminated upon the completion of the Acquisition.

The parties to the Implementation Agreement also agreed (for themselves and on behalf of their related parties) that the Pearl Group Sellers (other than Hugh Osmond and Manjit Dale, each of whom were to be Directors) would resign on completion from all positions held in relation to each member of the Group whether as director, alternate director, member of any committee, officer, employee, consultant, representative, agent or adviser.

The Implementation Agreement provided that certain key employees of PGH2 would continue to be employed by the Group following completion, but such individuals were required to resign as directors, alternate directors and members of any committee of any member of the Group.

(e) Representations and warranties

The Implementation Agreement contains, among other terms, customary representations and warranties by the Company and each other party relating to the transactions contemplated therein.

(f) Lenders' approval mechanism

The Lenders appointed an agent under the Implementation Agreement to exercise the rights of the Lenders thereunder, which agent is authorised to give or make all waivers, approvals, nominations or consents, and be party to all consultations on behalf, of the Lenders thereunder. The agent may only exercise such rights in accordance with the instructions of Lenders who together hold more than two-thirds of their aggregate commitments under the Impala Facility Agreement and the Pearl Facility Agreement.

(g) Lender Warrants

Pursuant to the Implementation Agreement, upon completion of the Implementation Agreement after the Acquisition, the Company issued to the Lenders warrants to purchase 5,000,000 Class B Shares. The terms of these warrants are more fully described in "—Incorporation and Share Capital—Share Capital—Description of the Company's Share Capital and Warrants".

7.11 Contingent Fee Agreement

In connection with the Implementation Agreement, the Company, the Pearl Borrowers, the Impala Borrowers and the Lenders entered into a Contingent Fee Agreement, dated 27 June 2009 (the "Contingent Fee Agreement"), pursuant to which the Lenders are entitled to receive additional fees from the Pearl Borrowers and the Impala Borrowers as further consideration for the Debt Restructuring. These fees become payable as follows:

- a fee in the aggregate amount of £33.15 million is payable upon the volume weighted average price of the Ordinary Shares attaining, and remaining above for 20 consecutive trading days, €13 per share, (the "First Threshold Fee");
- a fee in the aggregate amount of £35.7 million is payable upon the volume weighted average price of the Company's Ordinary Shares attaining, and remaining above for 20 consecutive trading days, €14 per share (the "Second Threshold Fee"); and
- a fee in the aggregate amount of £38.25 million is payable upon the volume weighted average price of the Company's Ordinary Shares attaining, and remaining above for 20 consecutive trading days, €15 per share (the "Third Threshold Fee").

The fees described above will be satisfied by the issue by the Company to the Lenders of:

- 2,833,333 fully paid up Ordinary Shares in respect of the First Threshold Fee;
- 2,833,333 fully paid up Ordinary Shares in respect of the Second Threshold Fee;
- 2,833,334 fully paid up Ordinary Shares in respect of the Third Threshold Fee;
- and each Pearl Borrower or Impala Borrower will become indebted to the Company, on arm's length terms, for the proportion of the fees described above that the Company satisfies on its behalf.

The Contingent Fee Agreement with the Lenders is, in all other respects, substantially the same as the CCA, including with respect to acceleration of the fees payable and anti-dilution adjustments.

The Contingent Fee Agreement will be amended pursuant to the terms of the Amended Contingent Fee Agreements (described in "—Amended Contingent Rights Agreements").

7.12 Royal London Agreements

(a) Background

On 10 October 2007 the following two agreements were entered into:

- PIK Facility Agreement as amended and restated was entered into by MC2 as borrower, MC1 as guarantor and Royal London as lender in the principal amount of £154.5 million; and
- MC1 entered into a notes subscription agreement as amended and restated with MC2 as guarantor and Royal London as the initial noteholder, pursuant to which MC1 (as issuer) and MC2 (as guarantor) executed the PIK Notes Instrument pursuant to which PIK Notes of £154.5 million were issued to Royal London.

(b) Sale of Shares in TC1 and TC2

Pursuant to the Royal London Implementation Agreement, Royal London sold, and the Company purchased, all of the ordinary and preference shares of TC1 and TC2 owned by Royal London. In consideration for the sale of these shares, the Company issued to Royal London 1.8 million Class B Shares.

(c) Assignment of the Royal London PIK Debt

Royal London assigned to the Company a portion of the principal amount of the PIK Notes, and a portion of the outstanding principal of the PIK Facility, such that the outstanding principal amount owed by MC1 and MC2 to Royal London under the PIK Documents was reduced to an aggregate of £100 million. Both the PIK Notes and the PIK Facility debt assigned by Royal London to the Company (together, the "PIK Subordinated Debt") (i) is subordinated to any remaining principal amount and interest owed to Royal London under the PIK Documents, (ii) is not secured on any assets or property of MC1 or MC2 and (iii) does not have the benefit of any guarantees from MC1 and/or MC2. In addition, the Company (and any subsequent transferees or assignees) are not entitled to vote or participate in any decisions of the Lenders or noteholders under the PIK Documents.

In consideration for the transfer of the PIK Subordinated Debt, the Company issued to Royal London 1.5 million Class B Shares, transferable warrants to purchase 2 million Class B Shares and non-transferable warrants to purchase 10.36 million Class B Shares. In addition, on the assignment of the PIK Subordinated Debt to the Company, the remaining amounts owed to Royal London under the PIK Documents were amended and restated as described below under "Restructuring of the PIK Debt".

(d) Restructuring of the PIK Debt

The PIK Documents were amended and restated to reflect the revised terms agreed with Royal London, including the restructuring of the repayment provisions to provide for a bullet repayment on 30 June 2019 and the payment of a coupon of 2 per cent. per annum plus LIBOR (with an increased coupon of 3.5 per cent. per annum on capitalised interest if elected by MC1 or MC2). Additional amendments have been made to the PIK Documents as considered appropriate to reflect the changes effected by the restructuring of the Group.

(e) Fees

In consideration for Royal London agreeing to amend and restate the remaining balance of the outstanding amounts owed to Royal London, MC1 and MC2 together became indebted to Royal London for a restructuring fee of £25.92 million in cash. Royal London assigned and transferred such fee to the Company in exchange for the issuance by the Company of 2.88 million Class B Shares.

As an additional fee for Royal London agreeing to the debt restructuring provided for in the Royal London Implementation Agreement, the Company agreed to pay Royal London £1,507,125 in cash. This was paid by the Company on completion of the Acquisition.

(f) Royal London Warrants

The non-transferable warrants and the transferable warrants issued to Royal London are more fully described in "—Incorporation and Share Capital—Share Capital—Description of the Company's Share Capital and Warrants".

(g) Listing on the London Stock Exchange and/or Euronext

The Company has agreed that it will use all reasonable endeavours to list its entire issued and to be issued Ordinary Shares on the London Stock Exchange on or before 30 June 2010. If this is not possible, the Company has agreed that it will use all reasonable endeavours to list any unlisted shares (including the Ordinary Shares into which the Class B Shares convert) held by Royal London on Euronext on or before 30 September 2010.

(h) Lock-up and orderly market

Royal London has agreed not to transfer any securities it receives from the Company, including shares issuable upon the exercise of Royal London Warrants or Ordinary Shares received upon the conversion of Class B Shares, for a period of one year following completion of the Acquisition save on a change of control or in respect of a transfer to an affiliate.

Royal London has also agreed, for a period of 18 months following completion of the Acquisition or, if earlier, until such time that it ceases to hold more than 2.5 per cent. of the Company's issued share capital, only to dispose of the shares it holds in the Company on a best price and execution basis through the Company's broker at the time and in such orderly manner as the Company may require with a view to maintaining an orderly market in the Company's shares provided that such broker offers competitive terms for the provision of such services and is, in Royal London's reasonable opinion, of substance and of good repute and has substantial distribution capacity in the insurance sector.

(i) Bond option

As part of the Acquisition, Royal London granted the Company an option to purchase, within six months of the completion of the Acquisition, certain of the Tier 1 Bonds then held by Royal London at 20 per cent. of the principal value thereof. The Company exercised this option on 18 February 2010 in relation to Tier 1 Bonds with a principal value (at that time) of £19.1 million. On 22 April 2010, the holders of the Tier 1 Bonds passed the special resolution described below in "—Tier 1 Bonds", pursuant to which the principal value of all the Tier 1 Bonds was reduced by 15 per cent. Completion of the option occurred on 26 April 2010.

Settlement Deed

Royal London, Impala and PGH2 are parties to a framework agreement dated 10 October 2007, as amended and restated on 2 May 2008 relating to the transfer of certain of the subsidiaries, businesses and related assets of Resolution (the "ARFA"). Royal London Management Services Limited and PGMS are parties to a transitional services agreement dated 1 August 2008 (the "TSA"), which provides for the intermediary services in connection with this transfer. Royal London, Impala, PGH2, and certain of their respective group companies entered into a settlement deed (the "Settlement Deed"), pursuant to which certain amounts owing between the Royal London group and Impala and its subsidiaries under the ARFA and the TSA are agreed and set off against each other.

The Settlement Deed, among other things, makes provision in respect of the transfer of certain tax attributes to Royal London, including that if the total amount of the tax attributes provided is less than £480 million PLHL will be required to make a refund payment to Royal London of up to £52.6 million.

7.13 Other Royal London contracts

In connection with the acquisition of PGH1 (then known as Resolution), Impala entered into a consortium arrangement with Royal London. In general terms, the arrangement provided for the transfer of certain existing life insurance policies and the new business division of the Resolution Group (as it was then) to Royal London for a consideration of approximately £1.3 billion (subject to adjustment) and the provision of approximately £0.3 billion of debt funding for the purposes of the takeover.

The transfer of the new business division occurred principally through: (i) a business transfer agreement, providing for the transfer of the new business division; and (ii) for the provision of certain administration and ancillary services, a transitional services agreement in each case entered into on 1 August 2008 between Royal London and certain members of the Group. The insurance policies in question were transferred pursuant to a Part VII insurance business transfer scheme under FSMA with effect from 29 December 2008.

7.14 Amended Contingent Rights Agreements

(a) Amended Contingent Consideration Agreement

The Company has made an offer to certain of the holders of Contingent Rights to enter into an agreement (the "Amended Contingent Consideration Agreement") to amend the Contingent Consideration Agreement, dated 27 June 2009, pursuant to which the Company will agree to issue Ordinary Shares, subject to the satisfaction of certain conditions, to Selling Shareholders. The Amended Contingent Consideration Agreement will be governed by English Law. As at the date hereof, the terms of this agreement remain subject to the agreement of the Sellers and the consent of the Lenders.

(i) Issue of Ordinary Shares

The Company and the Selling Shareholders will agree, upon satisfaction of the conditions listed below, to:

- allot and issue to each of the Selling Shareholders the Initial Shares that the Selling Shareholder would have received upon crystallisation of its Contingent Rights;
- termination of the existing rights to receive Ordinary Shares under the Contingent Rights; and

- allot and issue to each of the Selling Shareholders a further 3,600,000 Ordinary Shares in aggregate upon (i) an offer being made to acquire all or a majority of the Company's issued ordinary share capital or substantially all the Company's assets; or (ii) a person or persons acting in concert (as defined in the City Code) becoming interested in 50 per cent. or more of voting right that may ordinarily be cast on a poll at a general meeting of the Company within three years of the date of Admission (together with the Initial Shares issued pursuant, to the terms of this agreement, the "Agreement Shares").

(ii) Conditions for the issue of Ordinary Shares

The Company and the Selling Shareholders will agree to allot and issue the abovementioned Ordinary Shares and the termination of the existing rights to receive Ordinary Shares under the Contingent Rights is conditional upon satisfaction of the following:

- this Prospectus being published;
- the approval by the Shareholders of the Company of the terms of the Amended Contingent Consideration Agreement by ordinary resolution; and
- all conditions to Admission, other than the allotment and issue of the Initial Shares pursuant to the Amended Contingent Consideration Agreement, being completed, satisfied or waived by the relevant party.

(iii) Undertakings of the Company

The Company will undertake that it will use all reasonable endeavours:

- to procure that the Ordinary Shares to be allotted and issued are admitted to the Official List of the UK Listing Authority and to trading on the main market of the London Stock Exchange; and
- not to make any issue, grant or distribution or take any action if the effect thereof would be that the Ordinary Shares to be allotted and issued pursuant to the Amended Contingent Consideration Agreement would have to be issued at a discount or otherwise could not, under any applicable law then in effect, be legally issued as fully paid.

(iv) Amendments to the Purchase Agreements

The Purchase Agreements will be amended such that the rights of the parties under the Purchase Agreements to make claims against other parties under the relevant Purchase Agreements will cease (other than in respect of the obligations not to compete with the Company and not to solicit employees).

(v) Lock up

Certain of the holders of the Contingent Rights will undertake not to transfer, sell or offer any of the Agreement Shares for the period of 12 months from the date on which the Initial Shares are issued. This undertaking is subject to certain covenants including transfers to holding companies and subsidiaries, members of the Sellers' family and allows the Sellers to participate in takeovers of the Company.

(vi) Scrip dividend

Certain of the holders of the Contingent Rights will also undertake to elect to take any dividends and/or distributions declared by the Company in respect of the Agreement Shares for the period of 12 months from the date of issue of the Initial Shares or until the holder transfers the Agreement Shares in the form of a scrip dividend.

If a dividend is declared or paid in respect of the period during which the holders of Contingent Rights will agree to take such dividend in the form of scrip dividend, but is declared or paid after the period then such holders shall take such dividend in cash and scrip in proportion to the relevant time periods.

(b) Contingent Fee Agreement

The Company has made an offer to holders of Contingent Rights to amend the Contingent Fee Agreement, dated 27 June 2009, on the following terms (the "Amended Contingent Fee Agreement"). The Amended Contingent Fee Agreement will be governed by English law. As at the date hereof, the terms of this agreement remain subject to the agreement of the Lenders and the consent of the Sellers.

The Company and the Lenders will agree to cancel the right to receive shares under the Contingent Fee Agreement on the same terms as the Company and the Selling Shareholders have agreed pursuant to the Amended Contingent Consideration Agreement (as described in "—Amended Contingent Consideration Agreement").

The Company will give the Lenders the same undertakings as it has provided to the Selling Shareholders in the Amended Contingent Consideration Agreement.

The Lenders will also agree to the same restrictions on the transfer of the Ordinary Shares to be issued to them and to elect for scrip dividend on the same terms as certain of the holders of the Contingent Rights have done pursuant to the terms of the Amended Contingent Consideration Agreement.

(c) Contingent Subscription Agreement

The Company has made an offer to the holders of Contingent Rights under the Contingent Subscription Agreement to cancel the right to receive shares thereunder on the same terms as it has offered to amend the Amended Contingent Consideration Agreement (as described in "—Amended Contingent Consideration Agreement").

The Company will give such holders of Contingent Rights the same undertakings it will provide the Selling Shareholders in the Amended Contingent Consideration Agreement.

The holders of Contingent Rights under the Contingent Subscription Agreement will agree to the same restrictions on the transfer of the Ordinary Shares to be issued to them and to elect for scrip dividend on the same terms as the parties other than the Company have done pursuant to the terms of the Amended Contingent Consideration Agreement. As at the date hereof, the terms of this agreement remain subject to the agreement of the holders of such Contingent Rights.

(d) Orderly market arrangements

TDR Capital, the principals of Sun Capital, the Lenders and certain other holders of Contingent Rights have been asked in connection with the amendment of the Contingent Rights Agreements to enter into agreements with the Company restricting Disposals (as defined therein) of Ordinary Shares by them and their affiliates for the period commencing upon the satisfaction of the conditions in the Amended Contingent Rights Agreements and expiring up to 24 months from the date of the Premium Listing (or, if earlier, 6 months following a Capital Raising (being an issue of Ordinary Shares for cash planned or expected to increase the Company's share capital by at least ten per cent.) in respect of which the Lenders have agreed the amount of the proceeds thereof which is to be applied in prepayment of debt owed to them). Pursuant to this agreement, (i) any Disposal of Ordinary Shares is to be undertaken through Deutsche Bank, J.P. Morgan Cazenove or another financial institution acting as corporate broker to the Company; (ii) any Disposal of Ordinary Shares shall be permitted provided that (x) such corporate broker confirms to the Company that, in its opinion, such Disposal will not negatively affect the orderly market in the Ordinary Shares and (y) if such corporate broker has received written confirmation from the Company that the Board has passed a resolution to undertake, or has instructed advisers to prepare for, or has taken other substantive action or active steps to effect, a Capital Raising within the following six months, such corporate broker confirms to the Company that, in its opinion, such Disposal will not negatively affect either the orderly market in the Ordinary Shares or the prospects of such Capital Raising; and (iii) no Disposal of Ordinary Shares may be undertaken if such corporate broker has received written confirmation from the Company that the Board has passed a resolution to undertake, or has instructed advisers to prepare for, or has taken other substantive action or active steps to effect a Capital Raising which is expected to take place within the three months following the date of such confirmation. In addition, the parties will agree to provide such undertakings as to restrictions on transfers of their Ordinary Shares as the corporate broker or sponsor of the Company may reasonably recommend in connection with a Capital Raising effected within the 24 months from the date of the Premium Listing provided always that such undertaking shall not exceed 6 months. The entry into these agreements remains, as at the date of this document, subject to agreement by the parties other than the Company.

7.15 Pearl Group Staff Pension Scheme Agreements

On 26 June 2009, PGH2 entered into an agreement with the trustees of the Pearl Group Staff Pension Scheme that governs how the Pearl Group Staff Pension Scheme will be funded until 2027 (the "Pensions Agreement").

The key features of the Pensions Agreement are as follows:

- PGH2 agreed to make certain specific payments to the Pearl Group Staff Pension Scheme. The first payment was a £50 million cash contribution which was paid within 30 days of the Pensions Agreement having become effective. This is to be followed by payments of £25 million (subject to satisfaction of capital resources requirements) to the Pearl Group Staff Pension Scheme on 30 September of each year from 2010 until 2019;
- The trustees of the Pearl Group Staff Pension Scheme being granted charges over shares in a number of members of the Group;
- The value of the security claim granted under the share charges is fixed at £600 million until 30 June 2012, and thereafter is capped at the lower of £600 million and 60 per cent. of the Pearl Group Staff Pension Scheme deficit (on a basis linked to UK government securities) revalued every three years thereafter. In so far as there is a residual deficit, and therefore security claim, after 2020 the Group has agreed to accelerate cash funding to reduce such deficit prior to 2027;
- PGH2 covenanted that the Group's embedded value will be at least 1.30:1 times the value of the security granted by way of share charge. Restrictions on dividends and debt payments will apply if this test is not met. Failure to maintain this embedded value ratio does not automatically entitle the trustees to exercise their security unless the ratio falls below 1.05:1 for two consecutive months and is not cured pursuant to the Pensions Agreement. If embedded value increases above a certain level, payments to the Pearl Group Staff Pension Scheme will be triggered; and
- The Pearl Group Staff Pension Scheme will continue to be subject to the scheme specific funding obligations under the Pensions Act 2004 although the contributions due under the valuation as at 30 June 2009 are as set out in the Pensions Agreement. The Pensions Agreement provides that any overall funding obligations under UK Pensions Law to which the Pearl Group Staff Pension Scheme is subject will take into account the amounts agreed to be paid and secured under the Pensions Agreement.

On 31 March 2010 PGH2 and the trustees of the Pearl Group Staff Pension Scheme entered into a supplemental deed to the Pensions Agreement, pursuant to which PGH2 transferred the shares in NPI to Phoenix Life Limited. £24 million of the consideration received for that transfer was paid into a ring-fenced account, from which withdrawals may only be made in accordance with the supplemental deed.

7.16 PGL Pension Scheme Guarantees

Pearl Life Holdings Limited has guaranteed to the trustees of the PGL Pension Scheme the obligations and liabilities of the participating employers to make payments to the PGL Pension Scheme. As at 31 December 2009 the principal obligations that are subject to the guarantee are cash contributions totalling £37.5 million over the period to June 2012. The performance of Pearl Life Holdings Limited under the guarantee has been guaranteed by PGH1.

7.17 Tier 1 Bonds

On 15 November 2005, PGH1 (previously Resolution) issued a series of £500 million 6.5864 per cent. fixed/floating rate perpetual reset capital securities (the "Tier 1 Bonds"). The Tier 1 Bonds are admitted to the official list of the UK Listing Authority and to trading on the London Stock Exchange. The Tier 1 Bonds are unsecured obligations of PGH1 and are subordinate to the claims of senior creditors. Payment in respect of the Tier 1 Bonds is conditional upon PGH1 being solvent at the time of payment and immediately following such payment and also, in respect of coupon payments, having sufficient distributable reserves.

The Tier 1 Bonds have no fixed maturity date and coupon payments may be deferred at the option of PGH1, and accordingly the Tier 1 Bonds meet the definition of equity for financial reporting purposes. The Tier 1 Bonds also meet the conditions for Innovative Tier 1 capital treatment in the calculation of GCR under the FSA rules.

The Tier 1 Bonds may be redeemed (in their entirety but not in part) at par at the option of PGH1 on the first reset date of 25 April 2016 or on any coupon payment date thereafter. Redemption is subject to FSA consent and notification requirements having been met, and is conditional upon all deferred coupon payments being satisfied in full. In certain circumstances, PGH1 has the right to substitute the Tier 1 Bonds or to redeem the Tier 1 Bonds before the first reset date.

Coupons are payable annually in arrears on 25 April each year at the rate of 6.5864 per cent. per annum, until the first reset date. Thereafter, coupons are payable semi-annually at 2.73 per cent. per annum over the then prevailing offered rate for six-month sterling deposits. On 25 March 2009, PGH1 announced that it was deferring the coupon payment on the Tier 1 Bonds of approximately £33 million, which would otherwise have been due for payment on 25 April 2009. On 23 March 2010, PGH1 announced its intention to defer the coupon payment due to be made on 25 April 2010.

The Tier 1 Bonds stipulated that if PGH1 opts to defer a coupon payment, the deferred coupon payment may only be satisfied through the ACSM. For so long as a deferred coupon payment has not been satisfied, PGH1 may not declare, pay or distribute a dividend on its securities in issue ranking junior to, or at the same level as, the Tier 1 Bonds or, except in particular circumstances, redeem, purchase or otherwise acquire any of its securities in issue ranking junior to the Tier 1 Bonds (the "Dividend and Capital Restriction").

On 22 April 2010, at a meeting of the holders of the Tier 1 Bonds a special resolution was passed which made certain amendments to the terms of the Tier 1 Bonds including (a) amending the ACSM so that it operates at both the level of PGH1 and the Company (b) amending the Dividend and Capital Restriction so that it operates at both the level of PGH1 and the Company, (c) including a carve out to the Dividend and Capital Restriction to allow certain dividend payments in 2010 by the Company to its shareholders, (d) the pro rata reduction of the outstanding principal amount of the Tier 1 Bonds from £500,000,000 to £425,000,000, and (e) incorporating an undertaking from PGH1 and the Company to operate the ACSM in respect of the 2009 deferred coupon so that it concludes no later than 31 December 2010. The Group may not finance the operation of the ACSM in respect of the payment of the 2009 deferred coupon from its existing cash resources. Following the passing of the Special Resolution on 22 April 2010, PGH1 revoked the notification dated 23 March 2010 by which it had elected to defer the 2010 coupon payment and the 2010 coupon was paid on 26 April 2010.

In order to retain the same level of regulatory capital PGH1 entered into a balancing instrument under which notes with a principal amount of £75,000,000 equal to the amount of the reduction in principal amount of the Tier 1 Bonds were issued to the Company. The terms of such notes are substantially the same as the terms of the Tier 1 Bonds but they are subordinated to the Tier 1 Bonds.

7.18 Tier 2 Bonds

In July 2001, SMA (which was then known as Scottish Mutual Assurance plc) issued £200 million 7.25 per cent. undated, unsecured subordinated notes (the "Tier 2 Bonds"). As a result of the Part VII transfer of certain policies from SMA to Phoenix Life Limited which was approved by the High Court on 30 January 2009, the Tier 2 Bonds became unsecured obligations of Phoenix Life Limited and are subordinate to the claims of senior creditors. Payment in respect of the Tier 2 Bonds is conditional upon Phoenix Life Limited being solvent at the time of payment and immediately following such payment. The Tier 2 Bonds are listed on the Luxembourg Stock Exchange.

The Tier 2 Bonds may be redeemed (in their entirety but not in part) at par at the option of Phoenix Life Limited on the first reset date of 25 March 2021 or on each fifth anniversary thereafter (each a "successive reset date"). Redemption is subject to FSA consent and notification requirements having been met.

Coupons on the Tier 2 Bonds are payable annually in arrears on 25 March, commencing in 2002, at the rate of 7.25 per cent. per annum until the first reset date. Thereafter, coupons are payable annually at 3.2 per cent. per annum over the prevailing benchmark gilt yield on each successive reset date.

7.19 Mutual Securitisation Bonds

In 1998 National Provident Institution raised approximately £260 million of capital through the securitisation of embedded value on blocks of existing unit linked and unitised with profit life and pension policies. The issuer of the underlying bonds (the "Mutual Securitisation Bonds") is Mutual Securitisation plc, which is not a member of the Group, but is consolidated for accounting purposes.

The Mutual Securitisation Bonds were issued in two classes which rank pari passu, being £140 million of 7.39169 per cent. Class A1 limited recourse bonds due in 2012 and £120 million of 7.5873 per cent. Class A2 limited recourse bonds due in 2022. The Mutual Securitisation Bonds are listed on the

Irish Stock Exchange and on the London Stock Exchange. The bonds are repaid out of surplus emerging from the securitised block of business and a collateral fund in place to support this.

Proceeds of the issue of the Mutual Securitisation Bonds were lent to National Provident Institution pursuant to a loan agreement between, amongst others, National Provident Institution and Mutual Securitisation plc dated 16 April 1998. The loan is secured pursuant to certain security documents between National Provident Institution and Mutual Securitisation plc which were entered into on or around the same date.

Following the demutualisation of National Provident Institution and subsequent to an insurance business transfer scheme in 1999 the obligations in relation to the bonds have been assumed by National Provident Life Limited.

7.20 Eurobond Notes

On 22 March 2010 LCA, LCB, MC1 and MC2 issued an aggregate amount of approximately £575 million subordinated variable rate eurobond notes (the "Eurobond Notes") to the Company. The Eurobond Notes are due in 2025 and carry an interest coupon of LIBOR + 2.5 per cent. per annum. The Eurobond Notes are listed on the Channel Islands Stock Exchange and the Company is the only holder of the Eurobond Notes.

The Company may not transfer any of the Eurobond Notes without the prior written consent of the Pearl Lenders (in the case of Eurobond Notes issued by LCA and LCB) or Royal London (in the case of Notes issued by MC1 and MC2), as the case may be.

7.21 Impala Loan Notes

In May 2008, Impala issued approximately £72 million of floating rate unsecured loan notes (the "Impala Loan Notes") in connection with the acquisition of Resolution. The Impala Loan Notes have a final maturity date of 31 December 2012 and carry an interest rate of LIBOR minus 1 per cent. per annum. Interest is payable twice yearly in arrears on 30 June and 31 December.

Noteholders may redeem the Impala Loan Notes (in their entirety or in part) on 30 June or 31 December each year at their principal amount together with accrued interest due up to the relevant repayment date. If at any time the aggregate nominal value of the Impala Loan Notes is less than £5 million, Impala may redeem all (but not some only) of the outstanding Impala Loan Notes at their principal amount together with any accrued interest due up to the date of repayment.

As at 31 December 2009, approximately £18 million of the loan notes remained outstanding.

7.22 Abbey Acquisition

In connection with the purchase of the UK and offshore life insurance businesses of Abbey National plc ("Abbey") by certain members of the Group in 2006 for a gross purchase price of £3.6 billion (the "Abbey Acquisition"), a suite of contractual documentation was entered into, certain aspects of which are still relevant to the Group. That suite of documentation included:

(a) Acquisition Agreement

Abbey gave certain warranties which were usual for a transaction of this nature. Except in relation to certain indemnities and covenants, Abbey's liability under the Abbey Acquisition agreement or the tax covenant (explained below) is capped at £2.2 billion.

Claims under the tax warranties or the tax covenant must be notified to Abbey within 6 months after the expiry of the statutory period during which an assessment of that liability may be issued by the relevant tax authority, or if there is no such period, or if such period is longer than 7 years, on or before 31 December 2012. Abbey will not be liable for claims under the tax warranties or the tax covenant if legal proceedings are not brought within 9 months of a claim being notified to Abbey, subject to certain exceptions.

(b) Glasgow sub-lease

On 29 November 2006, Abbey entered into a sub-lease permitting Resolution Management Services Limited (now PGMS) to occupy floors 2, 3 and 4 of the property at 301 St. Vincent St, Glasgow G2 5NB, for a term expiring on 22 December 2020. PGH1 guaranteed the obligations of PGMS under this lease.

The rent is charged pro rata per square foot based on the current rent of £2.9 million per annum exclusive of VAT, service charge, insurance premiums and all other outgoings. The rent increases by

1.5 per cent. in June and December each year. In addition, the Group currently pays £3.1 million per year in respect of service charges and insurance for that property. The only permitted use of the property is as offices. The Group previously used this property for life company related activity, but has now substantially vacated it following the transfer of the majority of its remaining operations at this site to its Wythall offices as part of its site consolidation plans. Capita and Royal London occupy parts of this site under sub-licensing arrangements with the Group.

(c) Tax covenant

Under the Abbey Acquisition Agreement and a separate tax covenant, Abbey has given certain tax warranties and indemnities to PLHL from completion. Broadly, the tax indemnities cover tax liabilities arising up to the end of 2005, to the extent that they exceed the current tax provision in the 2005 accounts, together with tax liabilities on non-ordinary course transactions in 2006 up to the completion of the Abbey Acquisition.

7.23 UKCPT transactions

On 30 October 2009, UKCPT, a separately listed company which is currently approximately 66 per cent. owned by various members of the Group, completed the purchase of a property portfolio from Phoenix Life for an aggregate consideration of £137.7 million, comprising cash of £35 million and the issue of approximately 151,544,000 ordinary shares in UKCPT.

A further property may be acquired by UKCPT from Phoenix Life Limited as part of this transaction. The completion of the acquisition of the remaining property is subject to a number of conditions. If that property is acquired, the consideration will be increased by the issue of a further 12,250,000 ordinary shares in UKCPT. The long-stop date for the acquisition of this property is 30 June 2010.

On 10 February 2010, the board of directors of UKCPT approved the issue of 195,000,000 new ordinary shares pursuant to the placing and offer for subscription announced on 15 January 2010. The shares were admitted to the Official List and commenced trading on the main market of the London Stock Exchange on 11 February 2010. The gross proceeds of the placing were approximately £150 million. The aggregate issue price of the shares issued to Phoenix and London Assurance was approximately £50 million.

On 23 April 2010, the board of directors of UKCPT announced that it was reviewing a proposal from Ignis Investment Services Limited, the investment manager of UKCPT regarding a proposed merger of UKCPT and F&C Commercial Property Trust Limited.

Also on 23 April 2010 Phoenix Life acquired approximately 16.1 per cent. of the issued share capital of F&C Commercial Property Trust Limited from Friends Provident Life and Pensions Limited and Friends Provident Life Assurance Limited. Friends Provident Life and Pensions Limited and Friends Provident Life Assurance Limited, Phoenix Life and Phoenix and London Assurance entered into certain irrevocable undertakings in connection with the proposed merger. There can be no certainty that the proposed merger will take place.

7.24 Henderson arrangements

In June 2006 PGH2 entered into various contractual arrangements with Henderson Global Investors Limited in connection with the investment management agreements that members of the Group have with Henderson Global Investors Limited. Under these arrangements PGH2 and the Pearl Life Companies have agreed to make payments to Henderson Global Investors Limited in the event that the actual fees paid to Henderson Global Investors Limited under the investment management agreements fall beneath a certain threshold for each calendar year until 2015 (and in 2015 for the period to 12 April 2015).

In order to promote the return to policyholders, certain funds have been withdrawn since 2008 and may continue to be withdrawn from the scope of the investment management agreements. As a result, payments have been paid to Henderson Global Investors Limited by PGH2 as the actual fees earned by Henderson Global Investors Limited fell beneath the contractual threshold.

7.25 Sponsors' Agreement

Pursuant to an agreement dated 4 June 2010, between the Company, the Directors, Jonathan Yates and the Joint Sponsors (the "Sponsors' Agreement"), the Company has appointed Deutsche Bank and J.P. Morgan Cazenove as joint sponsors in connection with the Company's application for the Ordinary Shares to be admitted to Premium Listing on the Official List.

The obligations of the Joint Sponsors in connection with the applications for Premium Listing of the Ordinary Shares are conditional upon, *inter alia*, Admission occurring by no later than 8:00 a.m. British Summer Time on 5 July 2010 (or such other time and date as the Company and Joint Sponsors may agree), the passing of certain resolutions to be proposed at separate meetings of holders of the Ordinary Shares and Class B Shares, the Class B Share Re-designation becoming unconditional and the Contingent Rights Cancellation becoming unconditional (save as to any condition relating to the issue of Ordinary Shares pursuant to the Contingent Rights Cancellation or Admission).

The Company has agreed to pay a transaction fee of £1.5 million, together with VAT, if applicable, to each of the Joint Sponsors subject to the Premium Listing of the Ordinary Shares becoming effective. The Company has also agreed to pay, or to reimburse to the Joint Sponsors, all costs, charges, fees and expenses in connection with Admission and the transactions contemplated by the Sponsors' Agreement as well as all applicable VAT on all amounts paid to either of the Joint Sponsors.

The Company has given certain standard representations, warranties, undertakings and indemnities to the Joint Sponsors in relation to which the Company's liability is unlimited. The Directors and Jonathan Yates have given certain representations and warranties to the Joint Sponsors, under which liability to the Joint Sponsors is limited in time and amount, subject to certain exceptions.

The Joint Sponsors may terminate the Sponsors' Agreement on or prior to Admission in circumstances that are typical for an agreement of this nature, including, *inter alia*, if the Company fails to comply with any obligation under the Sponsors' Agreement, or any representation or warranty given by the Company or any Director or Jonathan Yates in the Sponsors' Agreement was not, when given, true, accurate and not misleading or there has been a material adverse change in the condition, earnings, business affairs or business prospects of the Group, in each case, in a way which either of the Joint Sponsors considers, acting in good faith, to be material in the context of Admission.

8 SUBSIDIARIES AND INVESTMENTS

The Company is the principal operating and holding company of the Group. The principal subsidiaries and subsidiary undertakings of the Company are as follows:

8.1 Wholly-owned subsidiaries

Name	Registered office	Class of shares	Proportion of share capital held by the Group	Nature of business
Axial Fixed Income Opportunities S.a.r.l.	1, allée Scheffer L-2520 Luxembourg	Ordinary shares of €100	100%	Investment vehicle
BA (GI) Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	Ordinary shares of £0.05	100%	General insurance company
Ignis Asset Management Limited	50 Bothwell Street Glasgow G2 6HR United Kingdom	Ordinary shares of £1	100%	Investment management company
Ignis Fund Managers Limited	50 Bothwell Street Glasgow G2 6HR United Kingdom	Ordinary shares of £1	100%	Unit trust management
Ignis Investment Management Limited	Sentinel House 16 Harcourt Street London W1H 4AD	Ordinary shares of £1	100%	Investment management company

Name	Registered office	Class of shares	Proportion of share capital held by the Group	Nature of business
	United Kingdom			
Ignis Investment Services Limited	50 Bothwell Street Glasgow G2 6HR United Kingdom	Ordinary shares of £1	100%	Investment management company
Impala Holdings Limited	The Pearl Centre Lynch Wood Peterborough PE2 6FY United Kingdom	'A' ordinary shares of £1, 'B' ordinary shares of £1 and 'D' ordinary shares of £1	100%	Holding company
London Life Limited	The Pearl Centre Lynch Wood Peterborough PE2 6FY United Kingdom	Ordinary shares of £1	100%	Insurance company
National Provident Life Limited	The Pearl Centre Lynch Wood Peterborough PE2 6FY United Kingdom	Ordinary shares of £1	100%	Insurance company
NP Life Holdings Limited	The Pearl Centre Lynch Wood Peterborough PE2 6FY United Kingdom	'A' ordinary shares of £1 and 'B' ordinary shares of £1	100%	Holding company
NPI Limited	The Pearl Centre Lynch Wood Peterborough PE2 6FY United Kingdom	Ordinary shares of £1	100%	Insurance company
Opal Reassurance Limited	Clarendon House 2 Church Street Hamilton Bermuda	'A' ordinary shares of £1 and 'B' ordinary shares of £1	100%	Long-term reinsurance
PA (GI) Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	Ordinary shares of £0.01 and deferred shares of £0.25	100%	General insurance company
Pearl Assurance plc	The Pearl Centre Lynch Wood Peterborough PE2 6FY United Kingdom	'A' Ordinary shares of £0.05	100%	Insurance company
Pearl Group Holdings (No. 1) Limited	100 St Paul's Churchyard London EC4M 8BU United Kingdom	Ordinary shares of £1	100%	Finance company
Pearl Group Holdings (No. 2)	The Pearl Centre	Ordinary	100%	Holding

Name	Registered office	Class of shares	Proportion of share capital held by the Group	Nature of business
Limited	Lynch Wood Peterborough PE2 6FY United Kingdom	shares of £1		company
Pearl Group Management Services Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	Ordinary shares of £1	100%	Service company
Pearl Group Services Limited	The Pearl Centre Lynch Wood Peterborough PE2 6FY United Kingdom	Ordinary shares of £1	100%	Service company
Pearl Life Holdings Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	Ordinary shares of £1	100%	Holding company
PGH (LC1) Limited	The Pearl Centre Lynch Wood Peterborough PE2 6FY United Kingdom	Ordinary shares of £1	100%	Finance company
PGH (LC2) Limited	The Pearl Centre Lynch Wood Peterborough PE2 6FY United Kingdom	Ordinary shares of £1	100%	Finance company
PGH (LCA) Limited	The Pearl Centre Lynch Wood Peterborough PE2 6FY United Kingdom	Ordinary shares of £1	100%	Finance company
PGH (LCB) Limited	The Pearl Centre Lynch Wood Peterborough PE2 6FY United Kingdom	Ordinary shares of £1	100%	Finance company
PGH (MC1) Limited	The Pearl Centre Lynch Wood Peterborough PE2 6FY United Kingdom	Ordinary shares of £1	100%	Finance company
PGH (MC2) Limited	The Pearl Centre Lynch Wood Peterborough PE2 6FY United Kingdom	Ordinary shares of £1	100%	Finance company
PGH (TC1) Limited	The Pearl Centre Lynch Wood Peterborough PE2 6FY	Ordinary shares of £1	100%	Holding company

Name	Registered office	Class of shares	Proportion of share capital held by the Group	Nature of business
	United Kingdom			
PGH (TC2) Limited	The Pearl Centre Lynch Wood Peterborough PE2 6FY United Kingdom	Ordinary shares of £1	100%	Holding company
PGS 2 Limited	The Pearl Centre Lynch Wood Peterborough PE2 6FY United Kingdom	Ordinary shares of £1	100%	Finance company
Phoenix & London Assurance Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	Ordinary shares of £1	100%	Insurance company
Phoenix Life Holdings Limited	100 St Paul's Churchyard London EC4M 8BU United Kingdom	Ordinary shares of £1	100%	Holding company
Phoenix Life Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	Ordinary shares of £1	100%	Insurance company
Phoenix Pensions Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	Ordinary shares of £1	100%	Insurance company
Scottish Mutual International Limited	25/28 North Wall Quay Dublin 1 Ireland	Ordinary shares of €1.25	100%	Insurance company

Although none of the share capital of Mutual Securitisation plc is held by a member of the Group, that company is consolidated for accounting purposes. For further information see Part XI: "Additional Information—Material Contracts—Mutual Securitisation Bonds".

8.2 Subsidiary undertakings and investments

Name	Registered office	Class of shares	Partnership Interest	Proportion of share capital held	Nature of business
Argonaut Capital Partners LLP	50 Bothwell Street Glasgow G2 6HR United Kingdom	Not applicable	50%	Not applicable	Asset Management
Cartesian Capital Partners LLP	50 Bothwell Street Glasgow G2 6HR United Kingdom	Not applicable	50%	Not applicable	Asset Management
Castle Hill Asset Management LLC	2711 Centerville Road Suite 400 Wilmington Delaware 19808	Not applicable	49%	Not applicable	Asset Management

Name	Registered office	Class of shares	Partnership Interest	Proportion of share capital held	Nature of business
	United States				
HEXAM Capital Partners LLP	50 Bothwell Street Glasgow G2 6HR United Kingdom	Not applicable	50%	Not applicable	Asset Management
UK Commercial Property Trust Ltd	Trafalgar Court Les Banques St. Peter Port Guernsey	Ordinary Shares of £0.25	Not applicable	66%	Commercial property company

9 PROPERTIES

In the UK, the Group largely operates from leased office premises at two sites in London and one site in each of Glasgow, Peterborough and Wythall. In addition, the Group leases office premises in Dublin, Ireland and has a licence for a property in Jersey. The Wythall site is leased from funds within the Group, which hold these premises as part of their investment portfolio.

The Group permits parts of its premises in Glasgow, Liverpool and Wythall to be used by its outsourced service providers to enable them to provide services to the Group.

The Group has substantially vacated its Glasgow life company site and expects to have substantially vacated its Peterborough site in the second quarter of 2011. The ongoing core site for the Group's life companies is the Wythall site. The Group may dispose of its Liverpool site, which has largely been closed as an operating site since December 2007.

Opal Re operates from offices in Hamilton, Bermuda.

10 LEGAL AND ARBITRATION PROCEEDINGS

Save as disclosed below, to the best of the knowledge of the Company (having taken all reasonable care), there are no governmental, legal or arbitration proceedings (including any such proceedings of which the Company is aware which are pending or threatened), during the previous 12 months, which may have or have had in the recent past significant effects on the Company and/or the Group's financial position or profitability.

10.1 Investment management claim

London Life and Pearl Assurance are currently engaged in arbitration proceedings with a major third party asset management company in relation to the investment manager's actions as investment manager for the euro-denominated cash collateral portfolio related to the securities-lending programme of Pearl Assurance and London Life with profit funds. Pearl Assurance and London Life assert that the investment manager breached its obligations by investing part of the collateral portfolio in assets which were not permitted by the mandate.

Although Pearl Assurance and London Life expect to conclude a commercial settlement on terms favourable to them, there can be no assurance as to the outcome of this dispute. If a settlement is not concluded, the dispute will be determined by arbitration.

Any recovery of damages or settlement proceeds from the asset management company will be distributed to the with profit funds of Pearl Assurance and London Life and accordingly the policyholders and shareholders of those funds will share in the recoveries on a 90/10 basis. The costs of this dispute will also be shared in the same way.

10.2 Collapse of Lehman Brothers

(a) Lehman Re Ltd

The Group's subsidiary Phoenix Life Limited is seeking to recover security provided by Lehman Re Ltd under its reinsurance arrangements with Phoenix Life Limited. Pursuant to these arrangements, Lehman Re Ltd provided Phoenix Life Limited with security for its reinsurance obligations, the value of which is approximately £70 million.

Lehman Re Ltd transferred this security to the security custodian, Lehman Brothers International (Europe) ("LBIE"), a Lehman Brothers entity which is now in administration.

Phoenix Life Limited has evidence that LBIE remitted £50 million of the security to either Lehman Brothers Commercial Corporation ("LBCC") or Lehman Brothers Inc ("LBI") without obtaining the requisite authority from Phoenix Life Limited.

LBIE administrators have confirmed that LBIE currently holds residual collateral in the form of bonds worth approximately $40 million. Release of the residual collateral is subject to ongoing negotiations and Phoenix Life Limited awaits confirmation from LBIE that it has received no competing claims in respect of the bonds held.

Lehman Brothers Holdings Inc ("LBHI") guaranteed the debts of LBIE, Lehman Re Ltd and LBCC.

(b) Related court proceedings

Given that it is uncertain which Lehman entity holds the £50 million which has been held as security by LBIE, Phoenix Life Limited has raised proceedings against LBCC for recovery of this amount and intends to shortly raise proceedings for recovery against LBI.

Phoenix Life Limited has raised separate proceedings against LBHI in relation to the guaranteed debts of LBIE, Lehman Re Ltd and LBCC.

If direct recovery of the security from LBCC, LBI or LBHI (as outlined above) is unsuccessful, Phoenix Life Limited will have a claim against the residual long-term fund assets of Lehman Re Ltd. Phoenix Life Limited is participating in direction proceedings, asserting that a $60 million investment should remain as part of the long-term fund assets of Lehman Re Ltd. A hearing is due to take place shortly.

(c) Other potential claims against Lehman Brothers

In related matters arising out of the collapse of Lehman Brothers, Phoenix Pensions has filed claims in the UK against LBIE totalling approximately £13 million and in the US against LBHI totalling approximately US$26 million. The claims relate to collateral and guarantee arrangements for derivative transactions and in each claim Phoenix Pensions is an unsecured creditor.

10.3 Acquisition of the Allianz Cornhill long-term business

HMRC has raised a number of specific enquiries in connection with the tax treatment of the acquisition by members of the Group of life business and assets from Allianz Cornhill Insurance plc in December 2005, in connection with which the Group has delivered further information and documentation to HMRC as requested. The full amount of additional tax (before interest and penalties) which may arise as a result of HMRC's enquiries is estimated by the Directors to be up to £40 million. Should no agreement be reached between HMRC and the Directors it is likely that litigation will follow.

10.4 Allocation of excess working capital in London Life

Since 2006 London Life has been in discussions with the FSA on its allocation of excess working capital to shareholder funds. The value of this excess working capital is £17 million as at 31 December 2009. The Directors believe that the allocation of this amount is correct and the directors of London Life have received supporting advice to that effect.

11 WORKING CAPITAL

In the opinion of the Company, the working capital available to the Group is sufficient for the Group's present requirements, that is for the next 12 months following the date of this document.

12 NO SIGNIFICANT CHANGE

There has been no significant change in the financial or trading position of the Group since 31 December 2009, the date to which the last audited consolidated accounts of Phoenix Group Holdings were prepared.

13 CONSENTS

Ernst & Young LLP, of 1 More London Place, London SE1 2AF, UK, which is registered to carry out audit work by the Institute of Chartered Accountants of England and Wales, has given and has not withdrawn its written consent to the inclusion of its reports on the financial information in the

Annex of the Group as described in Part VII: "Financial Information", in the form and context in which they appear and has authorised the contents of those parts of this document which comprise its reports for the purposes of item 23.1 of Annex 1 of the Commission Regulation (EC) 809/2004 of 29 April 2004.

14 TAXATION

14.1 UK taxation

The following statements are intended only as a general guide to certain UK tax considerations and do not purport to be a complete analysis of all potential UK tax consequences of holding Ordinary Shares or Ordinary Warrants. They are based on current UK legislation and what is understood to be the current practice of HMRC, both of which may change, possibly with retroactive effect. They apply only to Shareholders (or holders of Ordinary Warrants) who are resident, and in the case of individuals, ordinarily resident and domiciled, for tax purposes in (and only in) the UK (except insofar as express reference is made to the treatment of non-UK residents), who hold their Ordinary Shares or Ordinary Warrants (as the case may be) as an investment (other than under an individual savings account), and who are the absolute beneficial owner of both the Ordinary Shares and any dividends paid on them (or Ordinary Warrants in the case of a holder of Ordinary Warrants). The tax position of certain categories of Shareholders (or holders of Ordinary Warrants) who are subject to special rules (such as persons acquiring their Ordinary Shares or Ordinary Warrarnts (as the case may be) in connection with employment, dealers in securities, insurance companies and collective investment schemes) is not considered. In addition the summary below may not apply to: (i) a person who holds Ordinary Shares as part of or pertaining to or attributable to a fixed base or permanent establishment in a non-UK jurisdiction; or (ii) any Shareholders who, either alone or together with one or more associated persons, such as personal trusts and connected persons, control directly or indirectly at least 10 per cent. of the voting rights or any class of share capital of the Company.

(a) Dividends

Dividend payments will be made without withholding or deduction for or on account of UK income tax.

(A) UK resident individual shareholders

Dividends received by individual shareholders will be subject to UK income tax. This is charged on the gross amount of any dividend paid before the deduction of any withholding taxes (the "gross dividend") and as increased for any UK tax credit available as described below.

UK resident and certain non-resident individual shareholders, will generally be entitled to a UK tax credit equal to one-ninth of the amount of the gross dividend, equivalent to ten per cent. of the aggregate of the dividend and credit.

An individual shareholder, who is subject to income tax at a rate or rates not exceeding the basic rate will be liable to tax on the dividend at the rate of ten per cent. and will therefore have no UK income tax liability to pay.

A shareholder who is subject to income tax at the higher rate will be liable to income tax at the rate of 32.5 per cent. to the extent that such sum, when treated as the top slice of that shareholder's income, falls above the threshold for higher rate income tax. Because tax is charged on the gross dividend plus the tax credit, any tax credit lowers the effective rates of tax in respect of the dividend. So, for example, a gross dividend of £180 will carry a tax credit of £20 and the UK income tax payable on the dividend by an individual shareholder who is subject to income tax at the higher rate would be 32.5 per cent. of £200, namely £65, less the tax credit of £20, leaving a net tax charge of £45, before any credit in respect of any withholding taxes.

With effect from 6 April 2010 a new, higher rate of income tax called the "additional rate" was introduced for income in excess of £150,000. The additional rate is currently 50 per cent. In connection with the introduction of the additional rate, a new "additional dividend rate" of 42.5 per cent. applies to dividend income to the extent that such sum, when treated as the top slice of that shareholder's income, falls above the threshold for additional rate income tax (i.e., currently £150,000). In the same way as in relation to a shareholder who is subject to income tax at the higher rate, because tax is charged on the gross dividend plus the tax credit, any tax credit lowers the effective rates of tax in respect of the dividend. So, for example, a gross dividend of £180 will carry a tax credit of £20 and the UK income tax payable on the dividend by an individual shareholder who is subject to income tax at the dividend additional rate would be 42.5 per cent. of £200, namely £85, less the tax credit of £20, leaving a net tax charge of £65, before any credit in respect of any withholding taxes.

(B) UK resident corporate shareholders

Corporate shareholders who are UK resident should note that legislation has recently been enacted that has made significant changes to the corporation tax treatment of dividends, including the corporation tax treatment of dividends paid to UK-resident companies by companies not resident in the UK (such as the Company). Although it is likely that most dividends paid on the Ordinary Shares to UK resident corporate shareholders would fall within one or more of the classes of dividend qualifying for exemption from corporation tax the exemptions are not comprehensive and are also subject to anti-avoidance rules.

Where a dividend paid by the Company is treated as exempt, the holder will not be entitled to claim relief by way of credit in the UK in respect of any tax paid by the holder under the laws of Jersey, either directly or by deduction, in respect of that dividend. Shareholders within the charge to corporation tax should consult their own professional advisers in relation to the implications of the legislation

(b) Taxation of disposals

A disposal or deemed disposal of Ordinary Shares or Ordinary Warrants by a shareholder or holder of Ordinary Warrants who is (at any time in the relevant UK tax year) resident or, in the case of an individual, ordinarily resident in the UK for tax purposes, may depending upon the person's circumstances and subject to any available exemption or relief (such as the annual exempt amount for individuals, or indexation for corporates), give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains. The abandonment or redemption for cash of an Ordinary Warrant is treated as a disposal for the purposes of UK taxation of capital gains.

Where Ordinary Shares are subscribed for pursuant to the exercise of an Ordinary Warrant the exercise of the Ordinary Warrant is not treated as a disposal of that Ordinary Warrant for the purposes of UK taxation of capital gains and the purchase price paid by the holder for the Ordinary Warrant is treated as additional consideration paid for the Ordinary Shares acquired.

(c) UK stamp duty and SDRT

UK stamp duty will not normally be payable in connection with a transfer of Ordinary Shares or Ordinary Warrants, provided that the instrument of transfer is executed outside the UK and no other action is taken in the UK by the transferor or transferee.

No UK SDRT will be payable in respect of any agreement to transfer Ordinary Shares, Ordinary Warrants or DIs provided that the Ordinary Shares and Ordinary Warrants are not registered in a register kept in the UK by or on behalf of the Company and (in the case of agreements to transfer the DIs) provided that the Company is not centrally managed and controlled in the UK

14.2 US federal income taxation

The following discussion is a general summary based on current law of certain US federal income tax considerations relevant to the ownership and disposition of Shares and the ownership, exercise and disposition of Warrants. The discussion is not a complete description of all tax considerations that may be relevant to investors and does not consider an investor's particular circumstances. It only applies to US Holders (as defined below) that hold Ordinary Shares or Ordinary Warrants as capital assets and use the US Dollar as their functional currency. It does not address the tax treatment of investors subject to special rules, such as banks, tax-exempt entities, regulated investment companies, real estate investment trusts, persons that received Shares as compensation for the performance of services, insurance companies, dealers, traders in securities that elect mark-to-market treatment, investors liable for alternative minimum tax, US expatriates, investors that own 10 per cent. or more of the Company's voting stock, investors that are resident or ordinarily resident in or have a permanent establishment outside of the US or investors that hold Shares as part of a straddle, hedging, conversion or other integrated transaction. It also does not address US state and local tax considerations.

THE STATEMENTS ABOUT US FEDERAL INCOME TAX CONSIDERATIONS ARE MADE TO SUPPORT THE MARKETING OF THE SHARES AND WARRANTS. NO TAXPAYER CAN RELY ON THEM TO AVOID TAX PENALTIES. EACH INVESTOR SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS

OWN PARTICULAR CIRCUMSTANCES OF OWNING SHARES OR WARRANTS UNDER THE LAWS OF THE CAYMAN ISLANDS, THE UNITED KINGDOM, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS, AND ANY OTHER JURISDICTIONS WHERE THE INVESTOR MAY BE SUBJECT TO TAXATION.

As used here, a ''US Holder'' means a beneficial owner of Shares that is for US federal income tax purposes (i) a citizen or individual resident of the United States, (ii) a corporation or other business entity treated as a corporation created or organised under the laws of the United States or its political subdivisions, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust subject to the control of one or more US persons and the primary supervision of a US court.

The US federal income tax treatment of a partner in a partnership that holds Shares or Warrants will depend on the status of the partner and the activities of the partnership. Partnerships should consult their tax advisors concerning the US federal income tax consequences to their partners of the ownership and disposition of Shares and ownership, exercise and disposition of Warrants.

(a) Shares

(i) Dividends

Subject to the PFIC rules discussed below, distributions on Shares will be ordinary dividend income from foreign sources when actually or constructively received. The dividends will not be eligible for the dividends received deduction available to US corporations or the preferential rate allowed for qualified dividends.

Dividends paid in foreign currency will be included in income in a US Dollar amount based on the exchange rate in effect on the date of receipt of the dividend, whether or not the currency is converted into US Dollars at that time. A US Holder's tax basis in the foreign currency will equal the US Dollar amount included in income. Any gain or loss on a subsequent conversion or other disposition of the foreign currency for a different US Dollar amount will be US source ordinary income or loss.

Except to the extent discussed below under ''—Backup withholding and information reporting'', dividends will not be subject to withholding for US federal income tax.

(ii) Dispositions

Subject to the PFIC rules discussed below, a US Holder generally will recognise capital gain or loss on the sale or other disposition of Shares equal to the difference between the amount realised and the US Holder's adjusted tax basis in the Shares, both determined in US Dollars. A US Holder's tax basis in the Shares will generally be the US Dollar cost of the Shares (i.e., the US Dollar value of foreign currency paid for the Shares at the spot rate on the date the Shares are purchased). Any gain or loss generally will be treated as arising from US sources. The gain or loss will be long-term capital gain or loss if the holder held the Shares for more than one year. Deductions for capital loss are subject to limitations.

A US Holder that receives foreign currency on the sale or other disposition of the Shares will realise an amount equal to the US Dollar value of the foreign currency on the date of sale or other disposition (or, in the case of a cash basis or electing accrual basis taxpayer, the settlement date). A US Holder will recognise currency gain or loss if the US Dollar value of the currency received at the spot rate on the settlement date differs from the amount realised. A US Holder will have a tax basis in the foreign currency received equal to its value at the spot rate on the settlement date. Any currency gain or loss realised on the settlement date or on a subsequent conversion of the foreign currency into US Dollars will be US source ordinary income or loss.

(b) Warrants

(i) Exercise

A US Holder will not recognise taxable income when it receives Shares by exercising Warrants. The holder's tax basis in the Shares will equal its tax basis, if any, in the Warrants exercised plus the US dollar value of the euro exercise price of the Warrants on the acquisition date (or in the case of a cash basis or electing accrual basis taxpayer, the settlement date).

If a US Holder uses previously acquired euro to pay the exercise price for the Shares, any foreign currency gain or loss that it recognises on the exchange of the euro for Shares will be US source ordinary income or loss.

The tax consequences of a cashless exercise of a Warrant are not clear and such exercise might be treated as a tax-free or taxable exchange. If the cashless exercise of a Warrant is a tax-free exchange, a US Holder would not recognise gain or loss on such exercise and would generally have an aggregate basis in the Shares received equal to its aggregate tax basis, if any, in the Warrants exercised. If the cashless exercise of a Warrant is a taxable exchange, a US Holder could be deemed to have surrendered Warrants for the number of Shares having a value equal to the exercise price for the total number of Warrants to be exercised. In that case, the US Holder would recognise capital gain or loss in an amount equal to the difference between its tax basis, if any, in the Warrants deemed surrendered and the US dollar value of the Shares represented by the Warrants deemed surrendered and would have a basis in the Shares equal to its basis in the Warrants deemed surrendered increased by the amount realised on the cashless exercise. US Holders should consult their own tax advisors concerning the tax consequences of the cashless exercise of a Warrant.

(ii) Disposition

Subject to the PFIC rules discussed below, a US Holder will recognise capital gain or loss on the sale or other disposition of Warrants in an amount equal to the difference between its tax basis, if any, in the Warrants and the US dollar value of the amount realised from the sale or other disposition. Any gain or loss generally will be treated as arising from US sources.

A US Holder that receives foreign currency on the sale or other disposition of the Warrants will realise an amount equal to the US dollar value of the foreign currency on the date of sale or other disposition (or in the case of a cash basis or electing accrual basis taxpayer, the settlement date). A US Holder will recognise currency gain or loss if the US dollar value of the currency received at the spot rate on the settlement date differs from the amount realised. A US Holder will have a tax basis in the foreign currency received equal to its value at the spot rate on the settlement date. Any currency gain or loss realised on the settlement date or on a subsequent conversion of the foreign currency into US dollars will be US source ordinary income or loss.

(iii) Expiration

If a US Holder allows Warrants to expire without exercising or selling them it will generally realise capital loss when the Warrants expire equal to the holder's tax basis in the Warrants.

(c) Passive foreign investment company

The Company may be a PFIC for the current taxable year. In general, a non-US corporation is a PFIC for any taxable year in which, after taking into account the income and assets of 25 per cent. or more owned subsidiaries, either (i) at least 75 per cent. of its gross income is "passive income" (generally dividends, interest, rents, royalties and gains from the disposition of passive assets) or (ii) at least 50 per cent. of the quarterly average value of its assets produce, or are held for the production of, passive income. Passive income does not include income derived in the active conduct of an insurance business by a company which is predominantly engaged in an insurance business and that, if it were a US corporation, would be subject to tax under special rules that apply only to insurance companies. The application of this exception to the Group is uncertain. No authority directly addresses whether a company engaged in business as a closed life fund consolidator that acquires and manages pools of life and pension policies from closed life funds, but does not write new insurance policies or reinsurance agreements, is actively engaged in an insurance business in a manner contemplated by this exception. If the Group's activities do not constitute active conduct of a qualifying insurance business under this exception, the Company will be considered a PFIC. In addition, because Company income or assets, the income or assets of the Company's subsidiaries, or the Company's activities or the activities of its subsidiaries may change in the future, the Company may in the future be treated as a PFIC.

If the Company were a PFIC in any taxable year during which a US Holder owns Shares or Warrants, the US Holder generally would be subject to substantial additional taxes (including taxation at ordinary income rates and an interest charge) on any "excess distributions" received from the Company and on any gain realised from a sale or other disposition of the Shares or Warrants (regardless whether the Company continues to be a PFIC). A US Holder would have an excess distribution to the extent that distributions on the Shares during a taxable year exceed 125 per cent. of the average amount received during the three preceding taxable years (or, if shorter, the US Holder's holding period). To compute the tax on excess distributions or any gain, (i) the excess distribution or gain would be allocated rateably over the US Holder's holding period, (ii) the amount allocated to the current taxable year and any year before the Company became a PFIC would be taxed as ordinary income in the current year and (iii) the amount allocated to other taxable years would be taxed at the highest applicable marginal rate in effect for each year (i.e., at ordinary income tax rate) and an interest charge would be imposed to recover the deemed benefit from the deferred payment of the tax attributable to each earlier year. A US holder's holding period in a Warrant generally will begin with the day after the holder acquired the Warrant. A US Holder's holding period in a Share received upon the exercise of a Warrant shall include the US Holder's holding period in such Warrant. In addition, if the Company were a PFIC, a US Holder of Shares generally would be subject to similar rules with respect to distributions by, and dispositions of the shares of, any direct or indirect subsidiaries of the Company that also were PFICs. Furthermore, a US person that holds an interest in a holder of Shares may be treated as an indirect holder of Shares and may be taxed on its proportion of any excess distribution or gain attributable to the Shares. An indirect holder also would be required to treat an appropriate portion of its gain on the sale or disposition of its interest in the actual holder as gain on the sale of the Shares.

A US Holder may be able to avoid some of the adverse impacts of the PFIC rules described above with respect to Shares by electing to mark the Shares to market annually. The election is available only if the Shares are traded in more than de minimis quantities on a qualified exchange for at least 15 days during each calendar quarter. Any gain from marking the Shares to market or from disposing of them would be ordinary income. Any loss from marking the Shares to market would be recognised only to the extent of mark-to-market gains previously included in income. Loss from marking the Shares to market would be ordinary, but loss on disposing of them would be capital loss except to the extent of mark-to-market gains previously included in income, if any. A mark-to-market election will not apply to any of the Company's subsidiaries that are PFICs even if a shareholder were to make the election for the Shares. Gain recognized in the first year for which a mark-to-market election is made with respect to Shares acquired in a previous taxable year (including Shares acquired in the current or a previous taxable year through the exercise of a Warrant that had been acquired in a previous taxable year) will generally be subject to the rules described above regarding excess distributions. Each US Holder should ask its own tax advisor whether a mark-to-market election is available or desirable. A valid mark-to-market election cannot be revoked without the consent of the IRS unless the Shares cease to be marketable.

A US Holder would not be able to avoid the tax consequences described above by electing to treat the Company as a qualified electing fund ("QEF") because the Company does not intend to provide shareholders with the information that would be necessary to make a QEF election with respect to the Shares or shares of any Company subsidiary.

If the Company were a PFIC and then ceased to be a PFIC, a US Holder could avoid continued application of the tax treatment described above by electing to be treated as if it sold its Shares on the last day of the last taxable year in which the Company was a PFIC. Any gain would be recognised and subjected to tax under the rules described above. Loss would not be recognised. The US Holder's basis in its Shares would be increased by the amount of gain recognised on the deemed sale.

US Holders should consult their own tax advisors concerning the Company's possible PFIC status, the consequences to them if the Company were a PFIC for any taxable year and the possible effects of lower tier PFICs on their timing and character of income and loss.

(d) Controlled Foreign Corporation

The Company will be CFC if US Holders that each own (directly, indirectly or by attribution) at least 10 per cent. of the Company's ordinary shares, including through ownership of Warrants, together own more than 50 per cent. (by vote or value) of the Company's ordinary shares, including through ownership of Warrants. For purposes of taking into account certain insurance income, the term CFC also generally includes a foreign insurance company in which more than 25 per cent. of the total combined voting power of all classes of stock or more than 25 per cent. of the total value of all the stock is owned by 10 per cent. US Shareholders. Warrants are generally treated as stock to the extent the result is to treat a person as a 10 per cent. US Shareholder and to treat a foreign corporation as a CFC.

Different rules apply for purposes of taking into account "related person insurance income," or "RPII". RPII is subpart F insurance income attributable to insurance policies or reinsurance contracts where the person that is directly or indirectly insured or reinsured is a RPII Shareholder. A foreign corporation is, subject to certain exceptions, treated as a CFC for RPII purposes if RPII Shareholders collectively own directly, indirectly, or by application of the constructive ownership rules

25 per cent. or more of the stock of the foreign corporation by vote or value. Although there can be no assurances, the Company does not expect that the Company or its subsidiaries will earn RPII.

If the Company is a CFC, a US Holder that is a 10 per cent. US Shareholder on the last day of the Company's taxable year must recognise ordinary income equal to its pro rata share of the Company's net earnings (including capital gains) for the tax year whether or not the Company makes a distribution. The income will be treated as income from sources within the US to the extent it arose from US sources. Earnings on which the US Holder pays tax currently will not be taxed again when they are distributed to the US Holder. A US Holder's basis in its interest in the Company will increase by any amounts the holder includes in income currently and decrease by any amounts not subject to tax when distributed. If the Company is a CFC, (i) the Company would incur US withholding tax on interest received from a related US person, (ii) special reporting rules would apply to directors of the Company and certain other persons and (iii) certain other restrictions may apply. Subject to a special limitation for individual US Holders that have held Shares for more than one year, gain from disposition of Shares recognised by a US Holder that is or recently has been a 10 per cent. US Shareholder will be treated as dividend income to the extent earnings attributed to the Shares accumulated while the US Holder held the Shares and the Company was a CFC. If the Company is a CFC, a 10 per cent. US Shareholder will be subject to the CFC rules rather than the PFIC rules.

(e) Backup withholding and information reporting

Dividends on Shares and proceeds from the sale or other disposition of Shares may be reported to the IRS unless the holder is a corporation or otherwise establishes a basis for exemption. Backup withholding tax at the applicable statutory rate may apply to amounts subject to reporting if the holder fails to provide an accurate taxpayer identification number or otherwise establish a basis for exemption. Any amount withheld may be credited against the holder's US federal income tax liability or refunded to the extent it exceeds the holder's liability. The Company will not be responsible for any such withholding of tax unless it pays non-corporate US Shareholders directly.

Recently enacted legislation requires certain US Holders to report information with respect to their investment in Shares not held through an account with a financial institution to the IRS. Investors who fail to report required information could become subject to substantial penalties. Potential investors are encouraged to consult with their own tax advisors regarding the possible implications of this new legislation on their investment in Shares.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH US HOLDER IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN SHARES IN LIGHT OF THE INVESTOR'S OWN CIRCUMSTANCES.

14.3 Certain Cayman Islands tax considerations

The Cayman Islands currently have no form of income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax.

The Company is registered as an "exempted company" pursuant to the Companies Law. The Company has received an undertaking from the Governor-in-Cabinet of the Cayman Islands that in accordance with section 6 of the Tax Concession Law (1999 Revision) of the Cayman Islands that, for a period of 30 years from 11 May 2010 no law enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall apply to the Company or its operations; and in addition that no tax to be levied on profits, income, gains or appreciations shall be payable (i) on or in respect of the shares, debentures or other obligations of the Company or (ii) by way of the withholding in whole or in part of payment of dividend or other distribution of income or capital by the Company to its members or a payment of principal or interest or other sums due under a debenture or other obligation of the Company. Accordingly, it is not envisaged that the Company will be subject to any taxation in the Cayman Islands other than in relation to incidental registry fees and stamp duties on certain instruments entered into by it.

There are no foreign exchange controls or foreign exchange regulations under the currently applicable laws of the Cayman Islands.

14.4 Certain Jersey tax considerations

The Company is subject to a zero per cent. rate of corporation/income tax in Jersey under the zero/ten regime introduced by The Income Tax (Amendment No. 28) (Jersey) Law 2007 and The Income Tax (Amendment No. 29) (Jersey) Law 2007.

Holders of shares or warrants who are not resident for income tax purposes in Jersey are not subject to taxation in Jersey in respect of any income or gains arising in respect of shares or warrants held by them. Holders of shares who are resident for income tax purposes in Jersey will be subject to income tax in Jersey on any dividends paid on shares held by them or on their behalf. Under current law the Company is not obliged to withhold income tax from these payments. No duties are payable in Jersey on the issue, conversion, redemption or transfer of shares or warrants. Stamp duty is payable at a rate up to approximately 0.75 per cent. of the value of shares or warrants on the registration of Jersey probate or letters of administration which may be required in order to transfer, convert, redeem or make payments in respect of shares or warrants held by a deceased individual sole holder of shares and/or warrants. There is no capital gains tax, estate duty or inheritance tax in Jersey.

The attention of investors who are resident in Jersey is drawn to the provisions of Article 134A of the Income Tax (Jersey) Law 1961 which may, in certain circumstances, render such a resident liable to income tax on the undistributable income of the Company.

The Company has received approval as an International Services Entity under part 12 of the Goods and Services Act (Jersey) 2007 and has been, and remains entitled throughout 2009 and 2010 to purchase goods and services for business use, free of Goods and Services Tax. If, in the unlikely event, any Goods and Services Tax is suffered, the Company will be able to make a formal reclaim.

Holders of shares or warrants who are individuals resident in a Member State of the EU or certain other jurisdictions referred to below should be aware of the provisions of the EU Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments (the "Savings Directive") pursuant to which income realised upon the sale or redemption of shares or warrants in undertakings for collective investment, as well as any income in the form of dividends or other distributions made by such undertakings for collective investment, may (depending upon the location, classification and investment portfolio of the undertaking) become subject to the reporting regime or withholding tax regime imposed by the Savings Directive, if such payment is made by a paying agent established either in a Member State of the EU or in certain other jurisdictions such as Jersey which have agreed to introduce an equivalent reporting or withholding tax regime in respect of such payments. The Savings Directive itself is applicable to member states, together with Norway, Iceland, Liechtenstein and Switzerland.

In relation to Goods and Services Tax:

(a) Where a taxable supply made to the Company by a person registered as a taxable person under the Goods and Services Tax (Jersey) Law 2007 (the "GST Law") has a value of less than £1,000, the Company will be required to pay goods and services tax in Jersey (at 3 per cent. of the value of the supply) on such supply if the supply is made under the retail scheme established under Article 43 of the GST Law and the supplier elects to charge goods and services tax on such supply. The Company may be entitled to a refund of such goods and services tax, subject to compliance with the relevant provisions of the GST Law.

(b) Where a taxable supply made to the Company by a person registered as a taxable person under the GST Law is a supply of goods for onward re-supply of such goods in Jersey in the same state in which they existed when supplied to the Company, the Company will be required to pay goods and services tax in Jersey (at 3 per cent. of the value of the supply) on such supply.

14.5 Netherlands Tax Considerations

The following summary outlines certain Netherlands tax consequences in connection with the acquisition, ownership and disposal of Shares and Warrants. The summary does not purport to present any comprehensive or complete picture of all Netherlands tax aspects that could be of relevance to the acquisition, ownership and disposal of Shares and Warrants by a (prospective) holder of Shares and/or Warrants who may be subject to special tax treatment.

For purposes of Netherlands income and corporate income tax, Shares and Warrants legally owned by a third party such as a trustee, foundation or similar entity or arrangement (a "Third Party"), may under certain circumstances have to be allocated to the (deemed) settlor, grantor or similar originator (the "Settlor") or, upon the death of the Settlor, his/her beneficiaries (the "Beneficiaries") in proportion to their entitlement to the estate of the Settlor of such trust or similar arrangement (the "Separated Private Assets").

The summary does not address the tax consequences of a holder of Shares and/or Warrants who is an individual and who has a substantial interest in the Company. Generally, a holder of Shares and/or Warrants will have a substantial interest in the Company if he, whether alone or together with his spouse or partner and/or certain other close relatives, holds directly or indirectly, or as Settlor or Beneficiary of Separated Private Assets,

(a) (i) the ownership of, (ii) certain other rights, such as usufruct, over, or (iii) rights, including the Warrants, to acquire (whether or not already issued), shares representing 5 per cent. or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of the Company; or

(b) (i) the ownership of, or (ii) certain other rights, such as usufruct over, profit participating certificates (*winstbewijzen*) that relate to 5 per cent. or more of the annual profit of the Company or to 5 per cent. or more of the liquidation proceeds of the Company.

In addition and generally, a holder of Shares and/or Warrants has a substantial interest in the Company if he, whether alone or together with his spouse or partner and/or certain other close relatives, has the ownership of, or other rights over, shares in, or profit certificates issued by, the Company that represent less than 5 per cent. of the relevant aggregate that either (a) qualified as part of a substantial interest as set forth above and where shares, profit certificates and/or rights there over have been, or are deemed to have been, partially disposed of, or (b) have been acquired as part of a transaction that qualified for non-recognition of gain treatment.

The summary does not address the tax consequences of holders of Shares and/or Warrants receiving income or realising capital gains in their capacity as (former) employee, (former) director and/or (former) supervisory director.

The summary is based on the tax laws and practice of the Netherlands as in effect on the date of this prospectus, which are subject to changes that could prospectively or retrospectively affect the stated tax consequences.

Prospective holders of Shares and/or Warrants should consult their own professional adviser with respect to the tax consequences of any acquisition, ownership or disposal of the Shares and/or Warrants in their individual circumstances.

(a) Withholding taxes

Dividends distributed by the Company in respect of the Shares will be made free of withholding or deduction of or for any taxes of whatever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein.

(b) Taxes on income and capital gains

(i) Holders of Shares and/or Warrants resident in the Netherlands: individuals

A holder of Shares and/or Warrants who is an individual resident or deemed to be resident in the Netherlands, or who has elected to be taxed as a resident of the Netherlands for Netherlands income tax purposes, will be subject to regular Netherlands income tax on the income derived from the Shares and the gains realised upon the acquisition, redemption and/or disposal of the Shares and/or Warrants by the holder thereof, if:

(a) such holder of Shares and/or Warrants has an enterprise or an interest in an enterprise, to which enterprise the Shares and/or Warrants are attributable; or

(b) such income or capital gain forms "a benefit from miscellaneous activities" (*resultaat uit overige werkzaamheden*) which, for instance, would be the case if the activities in the Netherlands with respect to the Shares and/or Warrants exceed "normal active asset management" (*normaal, actief vermogensbeheer*) or if income and gains are derived from the holding, whether directly or indirectly, of (a combination of) shares, debt claims or other rights (together, a *lucratief belang*) that the holder thereof has acquired under such circumstances that such income and gains are intended to be remuneration for work or services performed by such holder (or a related person), whether within or outside an employment relation, where such lucrative interest provides the holder thereof, economically speaking, with certain benefits that have a relation to the relevant work or services.

If either of the abovementioned conditions (a) or (b) applies, income or capital gains in respect of dividends distributed by the Company or in respect of any gain realised on the disposal of Shares and/or Warrants will in general be subject to Netherlands income tax at the progressive rates up to 52 per cent.

If the abovementioned conditions (a) and (b) do not apply, the holder of Shares and/or Warrants who is an individual resident or deemed to be resident in the Netherlands, or who has elected to be taxed as a resident of the Netherlands for Netherlands tax purposes, will not be subject to taxes on actual income and capital gains in the Netherlands. Instead, such individual is taxed at a flat rate of 30 per cent. on deemed income from "savings and investments" (*sparen en beleggen*). This deemed income amounts to 4 per cent. of the average of the individual's "yield basis" (*rendementsgrondslag*), generally, at the beginning of the calendar year and the individual's "yield basis" at the end of the calendar year (minus a tax-free threshold). The yield basis would include the fair market value of the Shares and/or Warrants.

(ii) Holders of Shares and/or Warrants resident in the Netherlands: corporate entities

A holder of Shares and/or Warrants that is resident or deemed to be resident in the Netherlands for Netherlands corporate income tax purposes, and that is:

(i) a corporation;

(ii) another entity with a capital divided into shares;

(iii) a cooperative (association); or

(iv) another legal entity that has an enterprise or an interest in an enterprise to which the Shares and/or Warrants are attributable,

but which is not:

(v) a qualifying pension fund;

(vi) a qualifying investment fund (under article 6a or 28 of the Netherlands Corporate Income Tax Act); or

(vii) another entity exempt from corporate income tax,

will in general be subject to regular Netherlands corporate income tax, levied at a rate of 25.5 per cent. (20 per cent. over profits up to €200,000) over income derived from the Shares and gains realised upon acquisition, redemption and disposal of the Shares and/or Warrants.

If and to the extent that such holder of Shares and/or Warrants is eligible for the application of the participation exemption (*deelnemingsvrijstelling*) with respect to the Shares and/or Warrants, income derived from the Shares and gains and losses (with the exception of liquidation losses under strict conditions) realised on the Shares and/or Warrants may be exempt from Netherlands corporate income tax.

(iii) Holders of Shares and/or Warrants resident outside the Netherlands: individuals

A holder of Shares and/or Warrants who is an individual not resident or deemed to be resident in the Netherlands, and who has not elected to be taxed as a resident of the Netherlands for Netherlands income tax purposes, will not be subject to any Netherlands taxes on income or capital gains in respect of dividends distributed by the Company or in respect of any gain realised on the disposal of Shares and/or Warrants, unless:

(a) such holder has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands and to which enterprise or part of an enterprise, as the case may be, the Shares and/or Warrants are attributable; or

(b) such income or capital gain forms "a benefit from miscellaneous activities" (*resultaat uit overige werkzaamheden*) which, for instance, would be the case if the activities in the Netherlands with respect to the Shares and/or Warrants exceed "normal active asset management" (*normaal, actief vermogensbeheer*) or if income and gains are derived from the holding, whether directly or indirectly, of (a combination of) shares, debt claims or other rights (together, a *lucratief belang*) that the holder thereof has acquired under such circumstances that such income and gains are intended to be remuneration for work or services performed by such holder (or a related person), whether within or outside an employment relation, where such lucrative interest provides the holder thereof, economically speaking, with certain benefits that have a relation to the relevant work or services.

If either of the abovementioned conditions (a) or (b) applies, income or capital gains in respect of dividends distributed by the Company or in respect of any gain realised on the disposal of Shares and/or Warrants will in general be subject to Netherlands income tax at the progressive rates up to 52 per cent.

(iv) Holders of Shares and/or Warrants resident outside the Netherlands: legal and other entities

A holder of Shares and/or Warrants, that is a legal entity, another entity with a capital divided into shares, an association, a foundation or a fund or trust, not resident or deemed to be resident in the Netherlands for Netherlands corporate income tax purposes, will not be subject to any Netherlands taxes on income or capital gains in respect of dividends distributed by the Company or in respect of any gain realised on the disposal of Shares and/or Warrants, unless such holder has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands and to which enterprise or part of an enterprise, as the case may be, the Shares and/or Warrants are attributable and the participation exemption (*deelnemingsvrijstelling*) as described above does not apply to any income or capital gain arising from such Shares and/or Warrants.

In such case, income derived from the Shares and gains realised on the Shares and/or Warrants will, in general, be subject to regular corporate income tax levied at a rate of 25.5 per cent. (20 per cent. over profits up to €200,000).

(c) Gift, Estate and Inheritance Taxes

(i) Holders of Shares and/or Warrants resident in the Netherlands

Gift tax may be due in the Netherlands with respect to an acquisition of Shares and/or Warrants by way of a gift by a holder of Shares and/or Warrants who is resident, deemed to be resident of the Netherlands or is treated (at the request of the beneficiar(y)(ies) of the gift) as a resident of the Netherlands.

Inheritance tax may be due in the Netherlands with respect to an acquisition or deemed acquisition of Shares and/or Warrants by way of an inheritance or bequest on the death of a holder of Shares and/or Warrants who is resident, deemed to be resident of the Netherlands or is treated (at the request of the beneficiar(y)(ies) of the estate or bequest) as a resident of the Netherlands, or by way of a gift within 180 days before his death by an individual who is resident or deemed to be resident in the Netherlands at the time of his death.

For purposes of Netherlands gift and inheritance tax, an individual with the Netherlands nationality will be deemed to be resident in the Netherlands if he has been resident in the Netherlands at any time during the ten years preceding the date of the gift or his death. For purposes of Netherlands gift tax, an individual not holding the Netherlands nationality will be deemed to be resident of the Netherlands if he has been resident in the Netherlands at any time during the twelve months preceding the date of the gift.

(ii) Holders of Shares and/or Warrants resident outside the Netherlands

No gift, estate or inheritance taxes will arise in the Netherlands with respect to an acquisition of Shares and/or Warrants by way of a gift by, or on the death of, a holder of Shares and/or Warrants who is neither resident, deemed to be resident nor treated (at the request of the beneficiar(y)(ies) of the gift or estate) as resident in the Netherlands for Netherlands inheritance and gift tax purposes, unless, in the case of a gift of Shares and/or Warrants by an individual who at the date of the gift was neither resident nor deemed to be resident in the Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in the Netherlands.

(iii) Certain special situations

For purposes of Netherlands gift, estate and inheritance tax, (i) a gift by a Third Party will be construed as a gift by the Settlor, and (ii) upon the death of the Settlor, as a rule his/her Beneficiaries will be deemed to have inherited directly from the Settlor. Subsequently, such Beneficiaries will be deemed the settlor, grantor or similar originator of the Separated Private Assets for purposes of Netherlands gift, estate and inheritance tax in case of subsequent gifts or inheritances.

For the purposes of Netherlands gift and inheritance tax, a gift that is made under a condition precedent is deemed to have been made at the moment such condition precedent is satisfied.

(d) Turnover Tax

No Netherlands turnover tax will arise in respect of or in connection with the subscription, issue, placement, allotment or delivery of the Shares and/or Warrants.

(e) Other Taxes and Duties

No Netherlands registration tax, capital tax, custom duty, transfer tax, stamp duty or any other similar documentary tax or duty, other than court fees, will be payable in the Netherlands in respect of or in connection with the subscription, issue, placement, allotment or delivery of the Shares and/or Warrants.

15 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months following Admission at the offices of the Group at Juxon House, 100 St. Pauls Churchyard, London EC4M 8BU:

(a) the Articles of Association of the Company;

(b) the Deed Poll;

(c) the historical financial information set out in the Annex and the audit reports thereon;

(d) the financial information of Liberty Acquisition Holdings (International) Company, as it was then known, for the financial year ended 31 December 2008 and the audit report thereon. Investors should note that this financial information has subsequently been restated and, for further information, should see Part IX: "Financial Information and Information Incorporated by Reference—Section B: Information Incorporated By Reference"; and

(e) this Prospectus.

Dated: 4 June 2010

"10 per cent. US Shareholder"	each US Holders that owns (directly, indirectly or by attribution) at least 10 per cent. of the Company's ordinary shares, including through ownership of Warrants;
"Abbey"	Abbey National plc;
"Abbey Acquisition"	the acquisition of UK and offshore life insurance businesses of Abbey by certain members of the Group;
"ACSM"	the alternative coupon satisfaction mechanism under the Tier 1 Bonds, under which, if PGH1 opts to defer a coupon payment, the deferred coupon payment may only be satisfied through the proceeds of the issue of certain forms of securities, which may be made at any time;
"ABN AMRO"	ABN AMRO N.V., London Branch;
"ACOHL"	Axial Credit Opportunities Holdings Limited;
"Acquired OPB Companies"	LCA, LCB, TC1, TC2 and Opal Re;
"Acquisition"	the acquisition by the Company of the Acquired OPB Companies on 2 September 2009;
"Admission"	admission of (i) the Ordinary Shares to a Premium Listing under Chapter 6 of the Listing Rules (ii) the New Shares and the Ordinary Warrants to the Official List of the Financial Services Authority and to the London Stock Exchange and (iii) of the New Shares to listing and trading on Euronext Amsterdam, becoming effective;
"AFM"	Netherlands Authority for the Financial Markets (*Autoriteit Fianciële Markten*);
"Aggregated OPB Financial Information"	the combined financial information of OPB prepared in accordance with IFRS for the three years ended 31 December 2009;
"Agreement Shares"	the 26,500,000 Ordinary Shares to be allotted and issued to each of the selling Shareholders, under the Amended Contingent Consideration Agreement;
"AIF"	alternative investment fund;
"AIFM" or the "first draft Directive"	the proposed EU Alternative Investment Fund Managers Directive;
"Amended Contingent Consideration Agreement"	the agreement between the Company, the Pearl Group Sellers and the Opal Re Sellers which amends the Contingent Consideration Agreement;
"Amended Contingent Fee Agreement"	the agreement between the Company, the Pearl Borrowers, the Impala Borrowers and the Lenders which amends the Contingent Fee Agreement;
"Amended Contingent Rights Agreements"	the Amended Contingent Consideration Agreement, Amended Contingent Fee Agreement and the Amended Contingent Subscription Agreement;
"Amended Contingent Subscription Agreement"	the agreement between the Company and the holders of the Contingent Rights pursuant to the Contingent Subscription Agreement;
"Annual General Meeting" or "AGM"	the Company's annual general meeting to be held on 23 June 2010;

"Applicable Share Price"	in the case of each Claim Reimbursement Share, an amount equal to the volume weighted average share price of Ordinary Shares for (A) the 30 day trading period following the public disclosure of the event giving rise to a claim under the Pearl SPA and Opal Re SPA or (B) if no public disclosure of such event shall have been made, then the 30 day trading period following delivery of the notice of the claim pursuant to the terms of the Pearl SPA and the Opal Re SPA;
"ARFA"	the framework agreement between Royal London, Impala and PGH2 dated 10 October 2007, as amended and restated on 2 May 2008, relating to certain of the subsidiaries, businesses and related assets of Resolution;
"ARROW"	Advanced Risk Responsive Operating Framework;
"Articles of Association"	The Third Articles of Association or the Fourth Articles of Association, as the context requires;
"AS Shareholders"	funds managed by TDR Capital and an entity associated with Sun Capital, majority and partial owners, respectively, of Algeco Scotsman;
"AS Debt Providers"	Deutsche Bank AS and The Royal Bank of Scotland plc;
"Axial"	Axial Investment Management Limited (which changed its name to Ignis Investment Management Limited in November 2009);
"Beneficiaries"	for purposes of Netherlands income and corporate income tax, beneficiaries;
"BMA"	Bermuda Monetary Authority;
"Board"	the board of directors of the Company;
"Britannic"	Britannic Group plc;
"BSP"	Bonus Share Plan;
"BSP Award"	means any of the following: a conditional share award, a share option, or an allocation of forfeitable shares or any combination of them;
"Capita"	Capita Life & Pensions Regulated Services Limited;
"Cayman Registrar"	Computershare Investor Services (Cayman) Limited;
"Cayman Registrar Agreement"	the registrar agreement dated 2 June 2010 between the Company and the Cayman Registrar;
"CCA Sellers"	Sun Capital, TDR Capital, O-Re Holdings (Netherlands) B.V. and O-Re Holdings UK Limited;
"CEIOPS"	The Committee of European Insurance and Occupational Pensions Supervisors;
"CFC"	Controlled Foreign Corporation;
"CFO Forum"	the European Insurance CFO Forum;
"City Code"	UK City Code on Takeovers and Mergers;
"Claim Date"	the date that is 30 days after the completion and delivery to the Company of is audited financial statements for the financial year ending 31 December 2010;
"Claim Reimbursement Shares"	50 per cent. of the Class B Shares issued by the Company to the relevant Sellers under the Purchase Agreements;
"Class B Shares"	the Class B ordinary shares of €0.0001 each in the Company;
"Class B Share Re-designation"	the re-designation of 52,032,123 Class B Shares into 52,032,123 Ordinary Shares;

"Class B Warrants"	warrants in respect of Class B Shares and, following admission, Ordinary Shares;
"Class Meeting"	the meeting of the holders of the Class B Shares to approve the Fourth Articles of Association to be held on 23 June 2010;
"Combined Code"	the June 2008 UK Combined Code on Corporate Governance;
"Companies Law"	the Companies Law (2009 Revision) of the Cayman Islands;
"Company"	Phoenix Group Holdings;
"Company Shares"	under the Lender Relationship Agreement, shares of any class in any member of the Group;
"Company Subordinated Debt"	rights, title, interest and benefit in and to £325 million of the principal due under the Pearl Facility Agreement, assigned by the Pearl Lenders to the Company;
"Contingent Consideration Agreement" or "CCA"	the contingent consideration agreement, dated 27 June 2009, between the Company, the Pearl Group Sellers and the Opal Re Sellers;
"Contingent Fee Agreement"	the contingent fee agreement, dated 27 June 2009, between the Company, the Pearl Borrowers, the Impala Borrowers and the Lenders;
"Contingent Rights"	prior to the Premium Listing, the right, under the Contingent Consideration Agreement, the Contingent Fee Agreement or the Contingent Subscription Agreement, to receive Ordinary Shares (subject to certain adjustments) on satisfaction of specified criteria and, upon the Premium Listing, the right, under the Amended Contingent Rights Agreements, to receive Ordinary Shares (subject to certain adjustments) on satisfaction of specified criteria;
"Contingent Rights Agreements"	the Contingent Consideration Agreement, the Contingent Fee Agreement and the Contingent Subscription Agreement;
"Contingent Rights Cancellation"	the cancellation of the Contingent Rights over Ordinary Shares in exchange for the issue of 32,400,000 Ordinary Shares;
"Contingent Subscription Agreement"	the contingent subscription agreement, dated 27 June 2009, between the Company and Berggruen Holdings II Ltd, and Marlin Equities IV, LLC;
"Corporate" or "Corporate Office"	the Group's corporate office, as described in Part IV: "Information on the Group—Section B: The Group—Structure of the Group—Corporate Office";
"CREST"	the computerised settlement system operated by Euroclear UK & Ireland to facilitate the transfer of title to shares in uncertificated form;
"Custodian"	the custodian nominated by the Depositary;
"DBSS"	the Deferred Bonus Share Scheme;
"Debt Restructuring"	the restructuring of the Pearl Facility Agreement and the Impala Facility Agreement;
"Deed Poll"	the deed poll in respect of the Depositary Interests dated 2 June 2010 executed by the Depositary;
"Depositary"	Computershare Investor Services PLC;
"Depositary Agreement"	the agreement for the provision of depositary services and custody services in respect of the Depositary Interests dated 2 June 2010 between the Company and the Depositary;
"Depositary Interest" or "DI"	a depositary interest in an Ordinary Share or an Ordinary Warrant, as applicable;
"Deutsche Bank"	Deutsche Bank AG, London Branch;

"DFSA"	the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) and the rules promulgated thereunder;
"Diligenta"	Diligenta Limited;
"Directors"	the directors of the Company;
"Disclosure and Transparency Rules"	the Disclosure and Transparency Rules of the FSA;
"Dividend and Capital Restriction"	restriction placed on PGH1 under the terms of the Tier 1 Bonds under which and for so long as a deferred coupon payment has not been satisfied, PGH1 may not declare, pay or distribute a dividend on its securities in issue ranking junior to or at the same level as the Tier 1 Bonds or, except in particular circumstances, redeem, purchase or otherwise acquire any of its securities in issue ranking junior to the Tier 1 Bonds;
"Dividend Shares"	further shares from the reinvestment of dividends paid on Free Shares, Partnership Shares and Matching Shares;
"DPF"	discretionary participation features;
"Drago"	Drago Real Estate Partners;
"Dutch Takeover Act"	the Dutch Financial Supervision Act and the rules promulgated thereunder implementing the EU Directive 2004/25/EC of 21 April 2004 on public takeover offers;
"ECR"	the Enhanced Capital Requirement;
"EEA"	the European Economic Area;
"EU"	the European Union;
"EUI"	Euroclear UK & Ireland Limited;
"Eurobond Notes"	aggregate amount of approximately £575 million subordinated variable rate eurobond notes issued by LCA, LCB, MC1 and MC2 on 22 March 2010;
"Euronext Amsterdam"	Euronext Amsterdam by NYSE Euronext;
"Euronext Nederland"	Nederlands Centraal Institut voor Giraal Effectenverkeer B.V. (Necigef);
"Excess Shares"	Shares acquired in breach of the Fourth Articles of Association;
"Executive Committee"	the executive committee of the Company that provides day-to-day direction;
"Executive Directors"	Jonathan Moss and Simon Smith;
"Financial Services Authority" or "FSA"	the Financial Services Authority of the UK in its capacity as the competent authority for the purposes of Part VI of FSMA and in the exercise of its functions in respect of the admission to the Official List otherwise than in accordance with Part VI of FSMA;
"FOS"	UK Financial Ombudsman Service;
"Founders"	Berggruen Holdings II Ltd, and Marlin Equities IV, LLC and the Company's initial independent directors;
"Founders' Shares"	the Ordinary Shares issued to the Founders on 28 Janaury 2008;
"Fourth Articles of Association"	the Fourth amended and restated memorandum and articles of association of the Company proposed to be adopted by special resolution of the Company's members prior to Admission;
"Free Shares"	an award of free shares in connection with the SIP;
"FSCS"	Financial Services Compensation Scheme;
"FSMA"	Financial Services and Markets Act 2000, as amended;
"GAAP"	generally accepted accounting principles;
"GAOs"	guaranteed annuity options;

"Glasgow Sub-Lease"	the sub-lease of floors 2, 3 and 4 of the property at 301 St. Vincent St, Glasgow G2 5NB, for a term expiring on 22 December 2020;
"gross dividend"	the gross amount of any dividend paid before the deduction of any withholding taxes;
"GCR"	Group Capital Resources;
"GCRR"	Group Capital Resources Requirement;
"Group"	the Company and its subsidiaries;
"GST Law"	Goods and Services Tax (Jersey) Law 2007;
"High Court"	the High Court of England and Wales;
"HMRC"	HM Revenue & Customs;
"ICA"	Individual Capital Assessment;
"ICAAP"	Individual Capital Adequacy Assessment Process;
"ICG"	Individual Capital Guidance;
"IFRS"	International Financial Reporting Standards;
"IGD"	the EU Insurance Groups Directive (98/78/EC);
"Ignis Asset Management"	the Group's asset management core business segment comprising the operations of Ignis Asset Management Limited, Ignis Investment Services Limited, Ignis Fund Managers Limited and Ignis Investment Management Limited;
"Impala"	Impala Holdings Limited;
"Impala Borrowers"	LC1 and LC2;
"Impala Covenant Group"	the Impala Borrowers, Impala and their respective subsidiaries;
"Impala Facility"	the credit facility made available pursuant to the Impala Facility Agreement;
"Impala Facility Agent"	Commerzbank AG, Filiale Luxemburg;
"Impala Facility Agreement"	the facility agreement dated 10 October 2007 as amended and restated entered into with Impala Borrowers, the Impala Lenders, the bookrunners, the arrangers, the Impala Facility Agent and the security trustee described therein;
"Impala Fee"	fee of £52,200,000 paid by the Impala Borrowers to the Impala Lenders or a specified designated affiliate in consideration for the restructuring of the Impala Facility Agreement;
"Impala Intercreditor Agreement"	the amended and restated Intercreditor Agreement between the Impala Borrowers and certain parent entities and other affiliates of the Impala Borrowers, the Impala Lenders, the administrative agent, the security trustee and the counterparties to hedging agreements entered into with certain members of the Impala Covenant Group;
"Impala Intercompany Debt"	the intercompany debt of the Company and its affiliates under the Impala Intercreditor Agreement;
"Impala Lenders"	the lenders under the Impala Facility Agreement;
"Impala Life Companies"	Phoenix Life Limited, Phoenix & London Assurance, Phoenix Pensions and Scottish Mutual International;
"Impala Loan Notes"	approximately £72 million of floating rate unsecured loan notes issued by Impala in May 2008;
"Impala Senior Debt"	the outstanding principal amount under the Impala Facility Agreement;
"Information Rights"	the right to receive a copy of all communications (including the accounts and reports) that the Company sends to its members generally or to any class of its members that includes the person

	making the nomination, and the rights of members under the Companies Law, any applicable law or regulation and the Articles of Association to require a single copy of the Company's last annual accounts, the last directors' report, the last directors' remuneration report and the auditor's report on those accounts and, free of charge, a hard copy version of a document or information provided to a member in another form;
"Initial Shares"	the nine Ordinary Shares to be allotted and issued to each of the holders of Contingent Rights, under the Amended Contingent Rights Agreements, for every ten Ordinary Shares that such holders of the Contingent Rights would have received upon crystallisation of their Contingent Rights;
"Insider Warrant Exchange Invitation"	the invitation made by the Company to the Founders by which the Founders could offer their Founder Warrants to the Company in exchange for Class B Shares;
"Insurance Act"	the Bermuda Insurance Act 1978 and related regulations, as amended;
"IRS"	US Internal Revenue Service;
"ISIN"	International Securities Identification Number;
"Joint Sponsors"	Deutsche Bank and J.P. Morgan Cazenove;
"J.P. Morgan Cazenove"	J.P. Morgan Securities Ltd.;
"LAHC"	Life Assurance Holding Corporation Limited;
"LBCC"	Lehman Brothers Commercial Corporation;
"LBHI"	Lehman Brothers Holdings Inc;
"LBI"	Lehman Brothers International;
"LBIE"	Lehman Brothers International (Europe);
"LC1"	PGH (LC1) Limited (previously Sun Capital Investments No.2 Limited);
"LC2"	PGH (LC2) Limited (previously Hera Investments No.2 Limited);
"LCA"	PGH (LCA) Limited (previously Sun Capital Investments Limited);
"LCB"	PGH (LCB) Limited (previously Hera Investments One Limited);
"Lender Loan Notes"	(i) £37.5 million of principal loan notes of LCB and (ii) £37.5 million of principal loan notes of LCA;
"Lender Non-Executive Director"	the Non-Executive Director of the Company appointed pursuant to the Lender Relationship Agreement;
"Lender Relationship Agreement"	the relationship agreement entered into between the Company and the Lender Shareholders on 27 June 2009, as amended;
"Lender Shareholders"	the Lenders which hold Shares;
"Lender Warrants"	the warrants issued to the Lenders on 2 September 2009;
"Lenders"	the Pearl Lenders and the Impala Lenders;
"life company"	a life assurance company;
"Listing Rules"	the Listing Rules of the Financial Services Authority;
"London Life"	London Life Limited;
"LTIP"	Long Term Incentive Plan;
"LTIP Award"	means any of the following: a conditional share award, a share option, or an allocation of forfeitable shares or any combination of them;
"Matching Shares"	an award of free shares to those employees who have purchased Partnership Shares;

"MC1"	PGH (MC1) Limited (previously Suncap Parma Midco Limited);
"MC2"	PGH (MC2) Limited (previously TDR Parma Midco Limited);
"MCEV"	Market Consistent Embedded Value;
"MCEV Principles"	the European Insurance CFO Forum Market Consistent Embedded Value Principles;
"MCR"	minimum capital requirement;
"MiFID"	the EU Markets in Financial Instruments Directive (2004/39/EC);
"MSA"	master services agreement;
"Mutual Securitisation Bonds"	the bonds issued by Mutual Securitisation plc in connection with a securitisation undertaken by National Provident Institution;
"National Provident Life"	National Provident Life Limited;
"New Shares"	the 32,400,000 Ordinary Shares to be issued by the Company at Admission pursuant to the Amended Contingent Rights Agreements and the 52,032,123 Ordinary Shares created when the same number of Class B Shares are re-designated to Ordinary Shares pursuant to the Fourth Articles of Association;
"NPI"	NPI Limited;
"Non-Executive Directors"	Directors who are not members of the Executive Committee, including the Chairman;
"Observer"	the representative appointed under the Lender Relationship Agreement to attend any meeting of the Board, or any committee thereof;
"Official List"	the Official List of the Financial Services Authority;
"OIVOP"	own initiative variation of permission;
"On-Sold Resolution Assets"	certain assets held by the Resolution Group transferred to Royal London;
"Opal Re"	Opal Reassurance Limited;
"Opal Re Sellers"	the equity holder of Opal Re (being O-Re Holdings (Netherlands) B.V.) and its parent company, O-Re Holdings UK Limited;
"Opal Re SPA"	the Purchase Agreement, dated 27 June 2009, among the Company and the Opal Re Sellers;
"Ordinary Shares"	ordinary shares of €0.0001 each in the Company;
"Ordinary Warrants"	warrants in respect of Ordinary Shares;
"Original Pearl Business" or "OPB"	LCA, LCB, PGH (TC1) Limited, PGH (TC2) Limited and Opal Re, together with their subsidiaries, being the five companies acquired by the Company on 2 September 2009 or, at any date between 1 January 2007 and 2 September 2009, those companies identified as being OPB at the relevant time as explained in Part VIII: "Operating and Financial Review—Basis of Presentation";
"OSPs"	outsourced service providers;
"Panel"	the UK Panel on Takeovers and Mergers;
"Partnership Shares"	the Ordinary Shares purchased with deductions from an employee's salary following an opportunity under the SIP;
"payment in lieu"	the cash sum that may be paid to Mr Yates under his service agreement in lieu of notice;
"Pearl Assurance"	Pearl Assurance plc;
"Pearl Borrowers"	LCA and LCB;
"Pearl Covenant Group"	the Pearl Borrowers and their subsidiaries (but excluding Impala and its subsidiaries);

"Pearl Facility"	the credit facility made available pursuant to the Pearl Facility Agreement;
"Pearl Facility Agent"	ABN AMRO;
"Pearl Facility Agreement"	the facility agreement dated 15 November 2006 as amended and restated made between, among others, the Pearl Borrowers, the Pearl Lenders and the Pearl Facility Agent;
"Pearl Fee"	fee of £17,010,000 paid by the Pearl Borrowers to the Pearl Lenders or a specified designated affiliate in consideration for the restructuring of the Pearl Facility Agreement;
"Pearl Group Staff Pension Scheme"	the pension scheme covering the employees of the Group prior to the acquisition of PGH1;
"Pearl Group Sellers"	the equity holders of LCA, LCB, TC1 and TC2 who are parties to the Pearl SPA (being Sun Capital, TDR Capital, Xercise Limited, Xercise Midco Limited, Jambright Limited and Jambright Midco Limited);
"Pearl Lenders"	the lenders under the Pearl Facility Agreement;
"Pearl Life Companies"	Pearl Assurance, London Life, National Provident Life and NPI;
"Pearl Senior Debt"	the outstanding principal amount under the Pearl Facility Agreement;
"Pearl SPA"	the purchase agreement, dated 27 June 2009, between the Company and the Pearl Group Sellers;
"Pensions Agreement"	the agreement dated 2 September 2009 between PGH2 and the trustees of the Pearl Group Staff Pension Scheme;
"Pensions Regulator"	the UK Pensions Regulator as established under section 1 of the Pensions Act 2004;
"Permitted Coupon"	an annual coupon payment of up to 6.5864 per cent. per annum on the Tier 1 Bonds not held by any Restricted Person or any member of the Group (unless held on behalf of third parties) becoming payable on or after 25 April 2010;
"PFIC"	passive foreign investment company (as defined in section 1297 of the US Internal Revenue Code of 1986, as amended);
"PGH1"	Pearl Group Holdings (No. 1) Limited (previously Resolution);
"PGH2"	Pearl Group Holdings (No. 2) Limited (previously Pearl Group Limited);
"PGL Pension Scheme"	the pension scheme covering the employees of PGH1 and its subsidiaries;
"PGMS"	Pearl Group Management Services Limited;
"PGMS Ireland"	Pearl Group Management Services (Ireland) Limited;
"PGS"	Pearl Group Services Limited;
"Phoenix Financial Information"	consolidated financial information for the Company for the period from its incorporation on 2 January 2008 to 31 December 2008 and for the year ended 31 December 2009;
"Phoenix Life"	the Group's life assurance (including its management services operations) core business segment;
"Phoenix Life Companies"	the Pearl Life Companies and the Impala Life Companies;
"Phoenix Life Holdings" or "PLHL"	Phoenix Life Holdings Limited;
"Phoenix & London Assurance"	Phoenix & London Assurance Limited;
"Phoenix Pensions"	Phoenix Pensions Limited;
"PIK Documents"	the PIK Facility and PIK Notes, collectively;

"PIK Facility"	the PIK facility agreement dated 10 October 2007 as amended and restated between MC2, MC1 and Royal London;
"PIK Notes"	the PIK notes issued to Royal London pursuant to the PIK Notes Instrument;
"PIK Notes Instrument"	a deed poll notes instrument dated 14 May 2008 as amended and restated executed by MC1 and MC2;
"PIK Subordinated Debt"	both the PIK Notes and the PIK Facility debt assigned by Royal London to the Company;
"PLAL"	Phoenix Life Assurance Limited;
"PPFM"	Principles and Practices of Financial Management;
"Premium Listing"	the transfer of the Ordinary Shares to a premium listing under Chapter 6 of the Listing Rules;
"Prospectus"	this document;
"Prospectus Directive"	the EU Directive 2003/71/EC;
"Prospectus Rules"	the Prospectus Rules of the FSA;
"Purchase Agreements"	the Pearl SPA and the Opal Re SPA;
"PVIF"	present value of in-force;
"QEF"	a qualifying electing fund;
"re-designation" or "re-designated"	variation and re-designation on a one for one basis;
"Resolution"	Pearl Group Holdings (No. 1) Limited (formerly named Resolution plc);
"Resolution Financial Information"	consolidated financial information for the Resolution Group, prepared in accordance with IFRS, for the two years ended 31 December 2008;
"Resolution Group"	Resolution and its subsidiaries and, where the context requires, includes the On-Sold Resolution Assets until, in each case, the date of their disposal as explained in Part VIII: "Operating and Financial Review—Basis of Presentation";
"Resolutions"	the resolutions to be approved at the AGM, including the resolution to approve the Amended Contingent Rights Agreements, the amendment of the LTIP and the adoption of the Fourth Articles of Association;
"Restricted Period"	the period commencing on completion of the Acquisition and ending on the first anniversary of completion;
"Royal London"	The Royal London Mutual Insurance Society Limited;
"Royal London Warrants"	the warrants issued to Royal London on 2 September 2009;
"RPC"	the Relationship and Pricing Committee;
"RPII"	related person insurance income;
"RPII Shareholder"	a US person who owns, directly or indirectly, any amount of shares of a foreign corporation;
"RSP"	Restricted Share Plan;
"RSP Award"	means any of the following: a share award, a share option, or an allocation of forfeitable shares or any combination of them;
"Samos Servicios"	Samos Servicios y Gestiones, S.L.;
"Savings Directive"	the EU Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments;
"Scottish Mutual International"	Scottish Mutual International Limited;
"Scottish Provident Pension Scheme"	the Group's Scottish Provident Staff Pension Scheme for Employees in the Republic of Ireland;

"SCR"	solvency capital requirement;
"SDRT"	Stamp Duty Reserve Tax;
"Sellers"	TDR Capital, Hugh Osmond, Alan McIntosh, Edward Hawkes, Matthew Allen, Marc Jonas, O-Re Holdings (Netherlands) B.V. and O-Re Holdings UK Limited;
"Sellers' Relationship Agreement"	the relationship agreement entered into between the Company and the Sellers on 27 June 2009, as amended;
"Selling Shareholders"	the holders of equity in LCA, LCB, TC1, TC2 and Opal Re immediately prior to completion of the Acquisition, excluding the Sellers and Royal London;
"Senior Managers"	members of the Executive Committee;
"Separated Private Assets"	for purposes of Netherlands income and corporate income tax, proportion to the Beneficiar(y's)(ies') entitlement to the estate of the Settlor of such trust or similar arrangement;
"Settlement Deed"	the settlement deed dated 27 June 2009 between Royal London, Impala, PGH2 and certain of their respective group companies;
"Settlor"	for purposes of Netherlands income and corporate income tax, the (deemed) settlor, grantor or similar originator;
"Share Plans"	the LTIP, RSP, Sharesave Scheme, SIP, BSP and the DBSS;
"Shareholders"	holders of Shares (including, for the avoidance of doubt, through DIs);
"Shares"	the Ordinary Shares and/or the Class B Shares, as appropriate (including, for the avoidance of doubt, DIs in relation to Ordinary Shares if applicable);
"SIP"	Share Incentive Plan;
"SMA"	Scottish Mutual Assurance Limited;
"SPILA"	Scottish Provident International Life Assurance Limited;
"Sponsors"	Berggruen Acquisition Holdings II Ltd and Marlin Equities IV, LLC;
"Sponsors' Agreement"	the agreement dated 4 June 2010, between the Company, the Directors, Jonathan Yates and the Joint Sponsors;
"SPVs"	special purpose vehicles;
"SRA Sellers"	Sun Capital, TDR Capital, Xercise Midco Limited and Jambright Midco Limited;
"Sun Capital"	the following principals of Sun Capital Partners: Hugh Osmond, Alan McIntosh, Matthew Allen, Edward Hawkes and Marc Jonas or, where the context requires, certain vehicles or entities controlled by or associated with such persons;
"TC1"	PGH (TC1) Limited (previously Suncap Parma Topco Limited);
"TC2"	PGH (TC2) Limited (previously TDR Parma Topco Limited);
"TCF"	Treating Customers Fairly;
"TDR Capital"	TDR Capital Nominees Limited and its various related entities, or, as the context requires, various investment funds whose investments in the Group are managed by TDR Capital LLP;
"Third Articles of Association"	the third amended and restated memorandum and articles of association of the Company;
"Third Excess Shares"	shares acquired in breach of the Third Articles of Association;
"Third Party"	for purposes of Netherlands income and corporate income tax, a third party such as a trustee, foundation or similar entity or arrangement;

"Tier 1 Bonds" or "Notes"	£500,000,000 6.5864 per cent. fixed/floating rate perpetual reset capital securities dated 15 November 2005 issued by PGH1;
"Tier 2 Bonds"	£200 million 7.25 per cent. undated unsecured subordinated notes issued by SMA and subsequently transferred to Phoenix Life Limited;
"Transferred VPS Interests"	ordinary shares representing approximately 77.3 per cent. of the issued share capital of, and certain loan notes in, VPS Holdings Limited disposed of on 31 March 2010 by Axial European Partners 1, L.P., a limited partnership ultimately controlled by Pearl Assurance;
"TRS Transactions"	two total return swap transactions ACOHL entered into with TDR Capital each under a total return swap confirmation dated 19 December 2008 as amended and restated on 9 June 2009, each supplemental to an ISDA Master Agreement and Schedule;
"TSA"	the transitional services agreement dated 1 August 2008 between Royal London Management Services Limited and PGMS;
"UK"	the United Kingdom;
"UK Holding Companies"	Phoenix Life Holdings, PGH2, Impala, PGH1, LCA, LCB, LC1, LC2 and Pearl Life Holdings Limited;
"UKCPT"	UK Commercial Property Trust;
"US" or "United States"	the United States of America, its territories and possessions, any State of the United States of America, and the District of Columbia;
"US Holder"	a beneficial owner of the Company's Shares that is for US federal income tax purposes (i) a citizen or individual resident of the United States, (ii) a corporation or other business entity treated as a corporation created or organised under the laws of the United States or its political subdivisions, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust subject to the control of one or more US persons and the primary supervision of a US court;
"US Investment Company Act"	the United States Investment Company Act of 1940, as amended;
"US Securities Act"	the United States Securities Act of 1933, as amended;
"VAT"	means value added tax chargeable under or pursuant to the Value Added Tax Act 1994 or the EU Directive 2006/112/EC on the common system of value added tax and any other sales, purchase or turnover tax of a similar notice, whether imposed in the UK or elsewhere;
"VIF"	value of in-force business;
"Warrants"	Class B Warrants and Ordinary Warrants; and
"WPICC"	with profit insurance capital component.

ANNEX: AUDITED HISTORICAL FINANCIAL INFORMATION

Contained in this annex is audited historical financial information for the following entities or groups of entities, each prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union under Dutch law, together with the audit reports thereupon:

Financial Information	**Pages**
Consolidated financial information of Phoenix Group Holdings for the period from its incorporation on 2 January 2008 to 31 December 2008 and for the financial year ended 31 December 2009	F-2 – F-89
Combined financial information for the Original Pearl Business for th§e financial years ended 31 December 2007, 31 December 2008 and 31 December 2009...........................	F-90 – F-184
Consolidated financial information of Pearl Group Holdings (No. 1) Limited (previously Resolution plc) for the financial years ended 31 December 2007 and 31 December 2008	F-185 – F-259

For the purposes of this Annex only, OPB shall also be defined as the "Pearl businesses" and terms otherwise defined or capitalised in this Annex shall not apply to the other Parts of this Prospectus.

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The Directors
Phoenix Group Holdings
c/o Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman
KY-1104, Cayman Islands

4 June 2010

Dear Sirs

Phoenix Group Holdings

We report on the financial information in respect of Phoenix Group Holdings set out in the Annex to the Prospectus. This financial information has been prepared for inclusion in the prospectus dated 4 June 2010 of Phoenix Group Holdings (the "Prospectus") on the basis of the accounting policies set out in paragraph 1. This report is required by item 20.1 of Annex 1 of Commission Regulation (EC) 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under applicable law to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex 1 to the Commission Regulation (EC) 809/2004, consenting to its inclusion in the Prospectus.

Responsibilities

The Directors of Phoenix Group Holdings are responsible for preparing the financial information on the basis of preparation set out in note 1(a) to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Prospectus, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of Phoenix Group Holdings as at the dates stated and of its profits, cash flows, recognised gains and losses and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Declaration

For the purposes of Commission Regulation (EC) 809/2004 we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex 1 of the Commission Regulation (EC) 809/2004.

Yours faithfully

Ernst & Young LLP

Consolidated income statement
for the year ended 31 December 2009

	Notes	2009	Restated Period ended 31 Dec 2008
		£m	£m
Gross premiums written		545	—
Less: premiums ceded to reinsurers		(31)	—
Net premiums written		514	—
Fees	6	101	—
Net investment income	7	1,032	33
Total revenue, net of reinsurance payable		1,647	33
Other operating income	8	67	—
Net income		1,714	33
Policyholder claims		(2,043)	—
Less: reinsurance recoveries		105	—
Change in insurance contract liabilities		1,137	—
Change in reinsurers' share of insurance contract liabilities		142	—
Transfer to unallocated surplus	21	(175)	—
Net policyholder claims and benefits incurred		(834)	—
Change in investment contract liabilities		(429)	—
Acquisition costs	9	(8)	—
Change in present value of future profits	33	4	—
Amortisation of acquired in-force business	33	(50)	—
Amortisation of other intangible assets	33	(7)	—
Administrative expenses	10	(255)	(2)
Net income attributable to unit holders		43	—
Total operating expenses		(1,536)	(2)
Profit before finance costs and tax		178	31
Finance costs	12	(87)	—
Profit for the year before tax		91	31
Tax attributable to policyholders' returns	13	60	—
Profit before the tax attributable to owners		151	31
Tax credit	13	44	—
Less: tax attributable to policyholders' returns	13	(60)	—
Tax attributable to owners	13	(16)	—
Profit for the year attributable to owners		135	31
Attributable to:			
Owners of the parent		95	31
Non-controlling interests	19	40	—
		135	31
Earnings per ordinary share			
Basic earnings per ordinary share	15	102.9p	58.1p
Diluted earnings per ordinary share	15	89.8p	45.1p

The consolidated income statement for the year ended 31 December 2009 incorporates the results of the acquired Pearl businesses for the 4-month post-acquisition period only.

Statement of consolidated comprehensive income
for the year ended 31 December 2009

	Notes	2009	Restated Period ended 31 Dec 2008
		£m	£m
Profit for the year		135	31
Other comprehensive income:			
Actuarial gains of defined benefit pension schemes		105	—
Exchange differences on translating foreign operations		(40)	133
		65	133
Tax charge	13	(31)	—
		34	133
Total comprehensive income for the year		169	164
Attributable to:			
Owners of the parent		129	164
Non-controlling interests		40	—
		169	164

The statement of consolidated comprehensive income for the year ended 31 December 2009 incorporates the results of the acquired Pearl businesses for the 4-month post-acquisition period only.

Pro forma reconciliation of Group operating profit to profit before the tax attributable to owners
for the year ended 31 December 2009

	Notes	2009	Restated Period ended 31 Dec 2008
		£m	£m
Operating profit			
Phoenix Life		285	—
Ignis Asset Management		14	—
		299	—
Corporate costs		(17)	(2)
Total operating profit/(loss) before adjusting items	4.2	282	(2)
Investment return variances and economic assumption changes on long-term business	5	145	—
Variance on owners' funds	5	(70)	33
Amortisation of acquired in-force business		(45)	—
Amortisation of other intangible assets		(7)	—
Non-recurring items	4.2	(105)	—
Profit before finance costs attributable to owners		200	31
Finance costs attributable to owners		(49)	—
Profit before the tax attributable to owners		151	31
Tax attributable to owners	13	(16)	—
Profit for the year attributable to owners		135	31

The analysis of pro forma profit attributable to owners for the year ended 31 December 2009 incorporates the results of the acquired Pearl businesses for the 4-month post-acquisition period only.

Statement of consolidated financial position
as at 31 December 2009

	Notes	2009	Restated 2008
		£m	£m
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	16	—	—
Share premium		859	401
Other reserves		257	6
Shares held by employee trust	17	(4)	—
Foreign currency translation reserve		93	133
Retained earnings		207	33
Total equity attributable to owners of the parent		1,412	573
Non-controlling interests	19	728	—
Total equity		2,140	573
Liabilities			
Pension scheme deficit	32	125	—
Insurance contract liabilities			
Liabilities under insurance contracts	20	50,291	—
Unallocated surplus	21	721	—
		51,012	—
Financial liabilities			
Investment contracts		8,570	—
Borrowings	22	4,181	—
Deposits received from reinsurers	23	431	—
Derivatives	24	2,842	11
Net asset value attributable to unit holders		946	—
Obligations for repayment of collateral received	25	4,106	—
	26	21,076	11
Provisions	27	101	—
Deferred tax	28	776	—
Reinsurance payables		17	—
Payables related to direct insurance contracts	29	759	—
Current tax	28	103	—
Accruals and deferred income	30	177	9
Other payables	31	650	—
Total liabilities		74,796	20
Total equity and liabilities		76,936	593

Statement of consolidated financial position
as at 31 December 2009

	Notes	2009	Restated 2008
		£m	£m
ASSETS			
Intangible assets			
Goodwill		77	—
Acquired in-force business		2,163	—
Customer relationships		438	—
Present value of future profits		35	—
	33	2,713	—
Property, plant and equipment	34	34	—
Investment property	35	1,915	—
Financial assets			
Loans and receivables		1,081	—
Derivatives	24	3,540	—
Equities		13,151	—
Fixed and variable rate income securities		37,658	—
Collective investment schemes		6,094	—
	36	61,524	—
Deferred tax assets	28	81	—
Insurance assets			
Reinsurers' share of insurance contract liabilities	20	2,860	—
Reinsurance receivables		264	—
Insurance contract receivables		17	—
		3,141	—
Current tax	28	44	—
Prepayments and accrued income		622	—
Other receivables	38	781	—
Cash and cash equivalents	39	6,081	2
Amounts in trust	40	—	591
Total assets		76,936	593

Statement of consolidated cash flows
for the year ended 31 December 2009

	Notes	2009	Restated Period ended 31 Dec 2008
		£m	£m
Cash flows from operating activities			
Cash absorbed by operations	40	(357)	—
Taxation received		37	—
Net cash flows from operating activities		(320)	—
Cash flows from investing activities			
On acquisition of the Pearl businesses	40	6,146	—
Interest received		2	16
Net change in cash invested in trust account		591	(457)
Net cash flows from investing activities		6,739	(441)
Cash flows from financing activities			
Gross proceeds from issue of share capital		—	422
Repayment on redemption of shares		(41)	—
Proceeds from issue of warrants		—	31
Cost of issuing shares and warrants		—	(15)
Repurchase of shares from non-controlling interests		(3)	—
Interest paid on borrowings		(221)	—
Proceeds of new borrowings		42	—
Dividends paid to non-controlling interests		(8)	—
Repayment of borrowings		(110)	—
Net cash flows from financing activities		(341)	438
Net increase/(decrease) in cash and cash equivalents		6,078	(3)
Cash and cash equivalents at the beginning of the year		2	—
Effect of exchange rate changes on cash and cash equivalents		1	5
Cash and cash equivalents at the end of the year	39	6,081	2

The statement of consolidated cash flows for the year ended 31 December 2009 incorporates the cash flows of the acquired Pearl businesses for the 4-month post-acquisition period only.

Statement of consolidated changes in equity
for the year ended 31 December 2009

	Share capital (note 16)	Share premium	Other reserves	Shares held by employee trust (note 17)	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests (note 19)	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2009 – as re-stated	—	401	6	—	133	33	573	—	573
On acquisition of the Pearl businesses	—	—	—	—	—	—	—	699	699
Profit for the year	—	—	—	—	—	95	95	40	135
Other comprehensive income for the year	—	—	—	—	(40)	74	34	—	34
Total comprehensive income for the year	—	—	—	—	(40)	169	129	40	169
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	(8)	(8)
Issue of share capital	—	440	—	—	—	—	440	—	440
Issue of share capital into employee trust	—	4	—	(4)	—	—	—	—	—
Redemption of shares	—	(41)	—	—	—	—	(41)	—	(41)
Contingent rights over shares:									
Shares to be issued	—	—	255	—	—	—	255	—	255
Credit to equity for equity-settled share-based payment	—	—	—	—	—	5	5	—	5
Conversion of warrants into ordinary shares	—	55	(4)	—	—	—	51	—	51
Repurchase of shares from non-controlling interests	—	—	—	—	—	—	—	(3)	(3)
At 31 December 2009	—	859	257	(4)	93	207	1,412	728	2,140

Statement of consolidated changes in equity – restated
for the period ended 31 December 2008

	Share capital (note 16)	Share premium	Other reserves	Shares held by employee trust (note 17)	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests (note 19)	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 2 January 2008	—	—	—	—	—	—	—	—	—
Profit for the period	—	—	—	—	—	31	31	—	31
Other comprehensive income for the period	—	—	—	—	133	—	133	—	133
Total comprehensive income for the period	—	—	—	—	133	31	164	—	164
Issue of share capital	—	422	—	—	—	—	422	—	422
Capital contribution of Sponsors' warrants	—	—	6	—	—	—	6	—	6
Underwriting fee charged to equity	—	(20)	—	—	—	—	(20)	—	(20)
Expenses relating to issuing of shares charged to equity	—	(1)	—	—	—	—	(1)	—	(1)
Credit to equity for equity-settled share-based payment	—	—	—	—	—	2	2	—	2
At 31 December 2008	—	401	6	—	133	33	573	—	573

1. Accounting Policies

(a) Basis of preparation

The consolidated financial statements for the year ended 31 December 2009 comprise the financial statements of Phoenix Group Holdings (''the Company'') and its subsidiaries (together referred to as ''the Group''). Following the completion of the acquisition of the Pearl businesses on 2 September 2009, Liberty Acquisition Holdings (International) Company changed its name to Pearl Group. Subsequently, on 15 March 2010, Pearl Group changed its name to Phoenix Group Holdings.

The consolidated financial statements have been prepared on a historical cost basis except for investment property, owner-occupied property, and those financial assets and financial liabilities that have been measured at fair value.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (''IFRS'') as adopted by the European Union (''EU'') and also in accordance with the statutory provision of Part 9, Book 2, of the Netherlands Civil Code.

The financial statements are presented in sterling (£) rounded to the nearest £ million except where otherwise stated.

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement more than twelve months after the period end is presented in the notes.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the consolidated income statement unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings including collective investment schemes where the Group exercises overall control. Certain of the collective investment schemes have non-coterminous period ends and are consolidated on the basis of additional financial statements prepared to the period end. The non-controlling interest in the collective investment schemes is classified as a liability and shown in the statement of consolidated financial position as net asset value attributable to unit holders. Intragroup balances and income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

Subsidiary undertakings are consolidated from the date that effective control is obtained by the Group and are excluded from consolidation from the date they cease to be subsidiary undertakings.

The Group uses the purchase method to account for the acquisition of subsidiary undertakings. The cost of an acquisition is measured at the fair value of the consideration. Any excess of the cost of acquisition over the fair value of the net assets acquired is recognised as goodwill. Any excess of the fair value of the net assets acquired over the cost of acquisition is credited to the consolidated income statement. Directly attributable acquisition costs are included within the cost of the acquisition, with the exception of costs directly related to the issuing of debt or equity securities which are included within the initial carrying amount of debt or equity securities where these are not carried at fair value.

Non-controlling interests are stated at the initial amount attributed adjusted for the relevant share of subsequent changes in equity.

Prior period adjustments

Following a review of the agreements in relation to the Company's Initial Public Offering ("IPO") and Founders' warrants the comparative amounts for 2008 have been restated to classify the warrants as financial liabilities instead of equity instruments. As a result of this restatement retained earnings have increased by £17 million, the foreign currency translation reserve has decreased by £4 million, share premium has decreased by £24 million and derivative financial liabilities have increased by £11 million.

In 2008, 29.99% of the IPO shares were classified by the Company as a financial liability, 'ordinary shares subject to possible redemption' as it was considered that Phoenix Group Holdings had an obligation to give the holders of the redeemable shares cash in exchange for their shares had they not wished to be involved in the consummation of an acquisition that Phoenix Group Holdings was proposing. It is considered that this obligation could have been avoided and therefore the 29.99% of the IPO shares have been reclassified as equity. This restatement has had the effect of increasing share premium by £132 million, increasing retained earnings by £3 million, increasing the foreign currency translation reserve by £41 million, decreasing ordinary shares subject to possible redemption by £172 million and decreasing deferred interest income on shares subject to possible redemption by £4 million.

In 2008, all share premium arising on the issue of share capital and all share issue costs taken to equity were accounted for within other reserves. The comparative amounts for 2008 have been restated to present these figures within a separate share premium account. The effect of this restatement is to increase share premium and decrease other reserves by £401 million.

Change in accounting policy

On 2 September 2009 the Company changed its functional currency from euros to sterling as from this date, and as a result of the acquisition of the Pearl businesses, the Company primarily generates and expends cash in sterling. All foreign currency transactions for the Company are now translated into the functional currency using the average rate. Details of the accounting policy with respect to foreign currency transactions are given in note 1(c).

The presentational currency of the Group has also been changed from euros to sterling as a result of the acquisition of the Pearl businesses which are predominately based in the UK and transact this business in sterling. The comparative amounts for 2008 have accordingly been restated. This change in accounting policy has resulted in the initial recognition of a foreign currency translation reserve in other comprehensive income for the period ended 31 December 2008 of £133 million and a subsequent reduction in the reserve in the year ended 31 December 2009 of £43 million. This change in accounting policy does not affect earnings and therefore there is no effect on the earnings per share calculation.

(b) Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Group's business that typically require such estimates are insurance and investment contract liabilities, determination of the fair value of financial assets and liabilities, impairment tests for intangible assets, income taxes and pension benefit assets and liabilities.

Insurance and investment contract liabilities

Insurance and investment contract liability accounting is discussed in more detail in accounting policies (e) and (f) with further detail of the key assumptions made in determining insurance and investment contract liabilities included in note 42.

Fair value of financial assets and liabilities

The fair values of financial assets and liabilities are classified and accounted for as set out in accounting policies (r) and (g) respectively. Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities, without any deduction for transaction costs. These are categorised as Level 1 financial instruments and do not involve estimates. If prices are not readily determinable, fair value is determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes. Financial instruments valued where valuation techniques are based on observable market data at the period end are categorised as Level 2 financial instruments. Financial instruments valued where valuation techniques are based on non-observable inputs are categorised as Level 3 financial instruments. Level 2 and Level 3 financial instruments therefore involve the use of estimates.

Impairment of intangible assets

Intangible assets are subject to regular impairment reviews as detailed in accounting policy (n). Impairments are measured at the difference between the carrying value of a particular asset and its recoverable amount. Impairments are recognised in the consolidated income statement in the period in which they occur.

Income taxes

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets. Any judgements made, and uncertainties considered, in arriving at deferred tax balances in the financial statements are discussed in note 28.

The accounting policy for income taxes (both current and deferred taxes) is discussed in more detail in accounting policy (l).

Pensions benefit assets and liabilities

The valuation of pension benefit assets and liabilities is determined using actuarial valuations, which involves making assumptions about discount rates, expected return rates on assets, future salary increases, mortality rates and future pension increases. As defined benefit pension plans are long-term in nature, such assumptions are subject to significant uncertainty. Details of the key assumptions used are shown in note 32.

(c) Foreign currency transactions

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in sterling, which is the Group's presentation currency.

The results and financial position of all Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the period end;
- income and expenses are translated at average exchange rates;
- all resulting exchange differences are recognised through the statement of consolidated comprehensive income; and
- cash flows are translated at average exchange rates.

Foreign currency transactions are translated into the functional currency of the transacting Group entity using average exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value through profit or loss are included in foreign exchange gains and losses. Translation differences on non-monetary items at fair value through profit or loss are reported as part of the fair value gain or loss.

(d) Classification of contracts

Contracts under which the Group accepts significant insurance risk are classified as insurance contracts.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts.

Some insurance and investment contracts contain a discretionary participation feature ("DPF"). This feature entitles the policyholder to additional discretionary benefits as a supplement to guaranteed benefits. Investment contracts with a DPF are recognised, measured and presented as insurance contracts.

(e) Insurance contracts and investment contracts with DPF

Under current IFRS requirements, insurance contracts and investment contracts with DPF are measured using accounting policies consistent with those adopted under UK GAAP. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

Insurance liabilities

The insurance contract liability for non participating non linked business is calculated initially to comply with the requirements of the Prudential Sourcebook for Insurers issued by the Financial Services Authority ("FSA"), the UK Regulator. The liability for insurance contracts for business in the non profit fund is adjusted where necessary by removing excessively prudent margins required for statutory solvency purposes together with general contingency reserves and those reserves required only under the Prudential Sourcebook for Insurers.

Insurance contract liabilities for non participating business are calculated using either a net premium or gross premium method. Where a gross premium method is used, the liability includes allowance for prudent lapses. Negative policy values are allowed for individual policies:

- where there are no guaranteed surrender values; or
- in the periods where guaranteed surrender values do not apply even though guaranteed surrender values are applicable after a specified period of time.

The principal assumptions are given in note 42.

For participating business, the Group follows the provisions of the UK Accounting Standard Board's FRS 27 *Life Assurance*. In accordance with these requirements, the liabilities under insurance contracts and investment contracts with DPF are calculated on the FSA's realistic basis. The key aspects of this methodology are:

- liabilities to policyholders arising from with profit life assurance business are stated at the amount of the realistic value of the liabilities, adjusted to exclude the owners' share of projected future bonuses;
- acquisition costs are not deferred; and
- reinsurance recoveries are measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

The principal assumptions are given in note 42.

Present value of future profits ("PVFP") on non participating business in the with profits funds

For UK with profit life funds falling within the scope of the FSA realistic capital regime, and hence FRS 27, an amount may be recognised for the PVFP on non participating business written in a with profit fund where the determination of the realistic value of liabilities in that with profit fund takes account, directly or indirectly, of this value.

Where the value of future profits can be shown to be due to policyholders this amount is recognised as a reduction in the liability rather than as an intangible asset, and is then apportioned between the amounts that have been taken into account in the measurement of liabilities and other amounts which are shown as an adjustment to the unallocated surplus.

Where it is not possible to apportion the future profits on this non participating business to policyholders the PVFP on this business is recognised as an intangible asset and changes in its value are recorded as a separate item in the consolidated income statement.

The value of the PVFP is determined in accordance with the FSA's realistic capital regime. The principal assumptions used to calculate the PVFP are the same as those used in calculating the insurance contract liabilities given in note 42.

Embedded derivatives

Embedded derivatives, including options to surrender insurance contracts, that meet the definition of insurance contracts or are closely related to the host insurance contract, are not separately measured. All other embedded derivatives are separated from the host contract and measured at fair value through profit or loss.

Liability adequacy

At each reporting date, liability adequacy tests are performed to assess whether the insurance contract and investment contract with DPF liabilities are adequate. Current best estimates of future cash flows are compared to the carrying value of the liabilities. Any deficiency is charged to the consolidated income statement.

The Group's accounting policies for insurance contracts meet the minimum specified requirements for liability adequacy testing under IFRS 4, as they allow for current estimates of all contractual cash flows and of related cash flows such as claims handling costs. Cash flows resulting from embedded options and guarantees are also allowed for, with any deficiency being recognised in the consolidated income statement.

Unallocated surplus

The unallocated surplus comprises the excess of the assets over the policyholder liabilities of the with profit business of the Group's life operations. For the Group's with profit funds, the amount included in the statement of consolidated financial position caption 'Unallocated surplus' represents amounts which have yet to be allocated to equity holders since the unallocated surplus attributable to policyholders has been included within liabilities under insurance contracts. The with profit funds are closed to new business and as permitted by IFRS 4, the whole of the unallocated surplus has been classified as a liability (either within insurance contract liabilities or unallocated surplus).

If the realistic value of liabilities to policyholders exceeds the value of the assets in the with profit fund, the unallocated surplus is valued at £nil.

(f) Investment contracts without DPF

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

The valuation of liabilities on unit linked contracts is based on the fair value of the related assets and liabilities. The financial liability is measured based on the carrying value of the assets and liabilities that are held to back the contract. The liability is the sum of the unit linked liabilities plus an additional amount to cover the present value of the excess of future policy costs over future charges.

Investment income and the movements in the fair value of investment contracts without DPF are included in the 'change in investment contract liabilities' in the consolidated income statement.

(g) Financial liabilities

On initial recognition, financial liabilities are recognised when due and measured at the fair value of the consideration received less directly attributable transaction costs (with the exception of liabilities at fair value through profit or loss for which all transaction costs are expensed).

Subsequent to initial recognition, financial liabilities (except for liabilities under investment contracts and other liabilities designated at fair value through profit or loss) are measured at amortised cost using the effective interest method.

Financial liabilities are designated upon initial recognition at fair value through profit or loss when doing so results in more meaningful information because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.

Warrants issued by the Company are recognised as a financial liability unless they can be exchanged for a fixed number of the Company's own shares, or are accounted for as equity-settled share-based payments, in which case they are recognised as equity.

(h) Borrowings

The majority of interest-bearing borrowings are recognised initially at fair value less any attributable transaction costs. The difference between initial cost and the redemption value is amortised through the consolidated income statement over the period of the borrowing using the effective interest method.

Certain borrowings are designated upon initial recognition at fair value through profit or loss and measured at fair value where doing so provides more meaningful information due to the reasons stated above in the financial liabilities accounting policy. Transaction costs relating to borrowings designated upon initial recognition at fair value through profit or loss are expensed as incurred.

(i) Deposits from reinsurers

It is the Group's practice to obtain collateral to cover certain reinsurance transactions, usually in the form of cash or marketable securities. Where cash collateral is available to the Group for investment purposes, the investments are recognised as 'financial assets' and the collateral repayable is recognised as 'deposits received from reinsurers'.

(j) Net asset value attributable to unit holders

The net asset value attributable to unit holders represents the non-controlling interest in collective investment schemes where the Group has a holding in excess of 50%. This interest is classified at fair value through profit or loss and measured at fair value, which is equal to the bid value of the number of units of the collective investment scheme not owned by the Group.

(k) Obligations for repayment of collateral received

It is the Group's practice to obtain collateral in stock lending transactions, usually in the form of cash or marketable securities. Where cash collateral is available to the Group for investment purposes, the investments are recognised as 'financial assets' and the collateral repayable is recognised as 'obligations for repayment of collateral received'. The 'obligations for repayment of collateral received' are measured at amortised cost, which in the case of cash is equivalent to cost.

(l) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised in the statement of consolidated comprehensive income or the statement of consolidated changes in equity, in which case it is recognised in these statements.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the date of the statement of consolidated financial position together with adjustments to tax payable in respect of previous years.

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided in respect of temporary differences arising from the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the period end.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The tax charge is analysed between tax that is payable in respect of policyholders' returns and tax that is payable on owners' returns. This allocation is calculated based on an assessment of the effective rate of tax that is applicable to owners for the year.

(m) Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the consolidated income statement as incurred.

Defined benefit schemes

The net surplus or deficit (the economic surplus or deficit) in respect of the defined benefit pension schemes is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted. The discount rate is the yield at the period end on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The economic surplus or deficit is subsequently adjusted to eliminate on consolidation the carrying value of insurance policies issued by Group entities to the defined benefit pension schemes (the reported surplus or deficit). A corresponding adjustment is made to the carrying values of insurance contracts liabilities and investment contracts liabilities.

The movement in the reported surplus/deficit is analysed between the service cost (recognised within administrative expenses in the consolidated income statement), the net interest gain or loss on the liabilities less the expected return on assets, including any reimbursement assets (recognised within net investment income in the consolidated income statement), curtailment gains/losses and actuarial gains and losses (recognised in other comprehensive income). All actuarial gains and losses are recognised in full.

(n) Intangible assets

Goodwill

Business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is measured on initial recognition at cost. Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. It is tested for impairment annually or when there is evidence of possible impairment. Goodwill is not amortised. For impairment testing, goodwill is allocated to cash generating units (Phoenix Life and Ignis Asset Management). Goodwill is impaired when the recoverable amount is insufficient to support its carrying value.

Acquired in-force business

Insurance and investment contracts with and without DPF acquired in business combinations and portfolio transfers are measured at fair value at the time of acquisition. The difference between the fair value of the contractual rights acquired and obligations assumed and the liability measured in accordance with the Group's accounting policies for such contracts is recognised as acquired in-force business.

Acquired in-force business is amortised over the estimated life of the contracts on a basis which recognises the emergence of the economic benefits.

An impairment review is performed whenever there is an indication of impairment. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the consolidated income statement. Acquired in-force business is also considered in the liability adequacy test for each reporting period.

Customer relationships and other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the fair value of the intangible asset is less than its carrying value.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised.

(o) Property, plant and equipment

Owner-occupied property is stated at fair value, being the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. Owner-occupied property is depreciated over its estimated useful life, which is taken as fifty years, except where the residual value is greater than its carrying value in which case, no depreciation is charged to profit or loss. Land is not depreciated. Gains and losses on owner-occupied property are recognised in the statement of consolidated comprehensive income.

Plant and equipment is stated at cost less accumulated depreciation. Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives.

(p) Investment property

Investment property is stated at fair value. Fair value is based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. Gains and losses arising from the change in fair value are recognised in the consolidated income statement.

(q) Investments in associates and joint ventures

Investments in associates and joint ventures that are held for investment purposes are accounted for under IAS 39 *Financial Instruments: Recognition and Measurement* as permitted by IAS 28 *Interests in Associates* and IAS 31 *Interests in Joint Ventures*. These are measured at fair value through profit or loss. There are no investments in associates and joint ventures which are of a strategic nature.

(r) Financial assets

Purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method.

Derivative financial instruments are classified as held for trading. They are recognised initially at fair value and subsequently are re-measured to fair value. Exchange-traded derivatives are valued at the published bid price, or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. The gain or loss on re-measurement to fair value is recognised in the consolidated income statement.

Equities, fixed and variable rate income securities and collective investment schemes are designated as at fair value through profit or loss and accordingly are stated in the statement of consolidated financial position at fair value. They are designated at fair value through profit or loss because they are managed and evaluated on a fair value basis in accordance with the Group's stated risk management policies to maximise returns to equity holders.

Invested cash held in collective investment schemes that are consolidated is recognised as a financial asset rather than cash and cash equivalents.

Impairment of financial assets

The Group assesses at each period end whether a financial asset or group of financial assets held at amortised cost is impaired. The Group first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

Fair value estimation

The fair value of financial instruments traded in active markets such as publicly traded securities and derivatives are based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. The fair value of investments that are not traded in an active market is determined using valuation techniques such as broker quotes, pricing model or discounted cash flow techniques. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument.

For units in unit trusts and shares in open-ended investment companies, fair value is by reference to published bid-values. The fair value of receivables and floating rate and overnight deposits with credit institutions is their carrying value. The fair value of fixed-interest bearing deposits is estimated using discounted cash flow techniques.

Stock lending

Financial assets that are lent under the Group's stock lending programme do not qualify for derecognition from the statement of consolidated financial position as the Group retains substantially all the risks and rewards of the transferred assets.

Collateral

The Group receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, derivative contracts and reinsurance arrangements in order to reduce the credit risk of these transactions. The amount and type of collateral required where the Group receives collateral depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash where the Group has contractual rights to receive the cash flows generated is recognised as an asset on the statement of consolidated financial position with a corresponding liability for its repayment. Non-cash collateral received is not recognised in the statement of consolidated financial position, unless the counterparty defaults on its obligations under the relevant agreement.

Cash and non-cash collateral pledged where the Group retains the contractual rights to receive the cash flows generated is not derecognised from the statement of consolidated financial position, unless the Group defaults on its obligations under the relevant agreement, and therefore continues to be recognised on the statement of consolidated financial position within the appropriate asset classification.

(s) Reinsurance

The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Reinsurers' share of insurance contract liabilities are dependent on expected claims and benefits arising under the related reinsured policies.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the consolidated income statement.

Reassurance premiums payable in respect of certain reassured individual and group pensions annuity contracts are payable by quarterly instalments. Due to the period of time over which reassurance premiums are payable under these arrangements, the reassurance premiums and related creditor are discounted to present values using a pre-tax risk-free rate of return. The unwinding of the discount is included as a charge within the consolidated income statement.

Gains or losses on purchasing reinsurance are recognised in the consolidated income statement at the date of purchase and are not amortised. They are the difference between the premiums ceded to reinsurers and the related change in the reinsurers' share of insurance contract liabilities.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are deducted from cash and cash equivalents for the purpose of the statement of consolidated cash flows.

(u) Provisions and contingent liabilities

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Group has a present legal or constructive obligation but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be reliably estimated, this is disclosed as a contingent liability.

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the expected economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

(v) Earnings per ordinary share

Basic earnings per share is calculated using the earnings attributable to ordinary equity holders of the parent, divided by the weighted average number of ordinary shares and 'B' ordinary shares in issue during the year.

For the diluted earnings per share, the weighted average number of ordinary shares and B ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares, including warrants and potentially issuable ordinary shares.

(w) Dividends

Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's owners. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting period are dealt with as an event after the reporting period.

Declared dividends are those that are appropriately authorised and are no longer at the discretion of the entity.

(x) Income recognition

Gross premiums

In respect of insurance contracts and investment contracts with DPF, premiums are accounted for on a receivable basis and exclude any taxes or duties based on premiums. Funds at retirement under individual pension contracts converted to annuities with the Group are, for accounting purposes, included in both claims incurred and premiums within gross premiums written.

Reinsurance premiums

Outward reinsurance premiums are accounted for on a payable basis.

Fee and commission income

Fee and commission income relates to the following:

- fund management based fees, which are recognised as the services are provided;
- investment contract income – investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those periods. 'Front end' fees are charged on some non-participating investment contracts. Where the non participating investment contract is measured at fair value, such fees which relate to the provision of investment management services are deferred and recognised as the services are provided; and
- other fees, which are recognised as the services are provided.

Net investment income

Net investment income comprises interest, dividends, rents receivable, net expected return on pension assets, fair value gains and losses on financial assets and investment property and impairment losses on loans and receivables.

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

Rental income from investment property is recognised in the consolidated income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

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

Other operating income

Other operating income comprises the general business result and other non-investment income which is recognised on an accruals basis.

(y) Benefits, claims and expenses recognition

Gross benefits and claims

Claims on insurance contracts and investment contracts with DPF reflect the cost of all claims arising during the period, including policyholder bonuses allocated in anticipation of a bonus declaration. Claims payable on maturity are recognised when the claim becomes due for payment and on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within insurance contract liabilities. Where claims are payable and the contract remains in-force, the claim instalment is accounted for when due for payment. Claims payable include the costs of settlement.

Reinsurance claims

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

Share-based payments

Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 18.

The fair value determined at the grant date of the equity-settled share-based payments is expressed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each period end, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement such that the cumulative expense reflects the revised estimate with a corresponding adjustment to equity.

Where the terms and conditions of warrants are modified before they vest, the increase in the fair value of the warrants, measured immediately before and after the modification, is also charged to the consolidated income statement over the remaining vesting period.

Finance costs

Interest paid is recognised in the consolidated income statement as it accrues and is calculated by using the effective interest method. Accrued interest is included within the carrying value of the interest-bearing financial liability.

(z) Share capital and shares held by employee trust

Ordinary share capital

The Group has issued ordinary shares and 'B' ordinary shares each of which is classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

Shares held by employee trust

Where an employee trust acquires the Company's share capital or obtain rights to purchase its shares, the consideration paid (including any attributable transaction costs, net of tax) is shown as a deduction from owners' equity. Gains and losses on sales of shares held by employee trusts are charged or credited to the own shares account in equity. Any shares in the Company which are purchased by the Company itself would be cancelled automatically by operation of law and would not be held as own shares.

(aa) General business

The general insurance businesses have been closed to new business for a number of years and are in run off. The results are included in other operating income within the consolidated income statement. Provisions are made for the estimated cost of claims, including claims incurred but not reported after taking into account handling costs, anticipated inflation and settlement trends. Any difference between the estimated provision and subsequent settlement is included in the consolidated income statement in later years.

(bb) Segmental reporting

The Group's results are analysed across two reportable segments: Phoenix Life and Ignis Asset Management. The revenues generated in each reported segment are shown in the segmental information in note 4.

There are no differences between the measurement of the assets and liabilities reflected in the primary statements and that reported for the segments. A reconciliation between the reported segment revenues and expenses and the Group's revenues and expenses is shown in note 4.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so.

(cc) Events after the reporting period

The financial statements are adjusted to reflect significant events that have a material effect on the financial results and that have occurred between the period end and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the period end. Events that are indicative of conditions that arise after the period end that do not result in an adjustment to the financial statements are disclosed.

2. Financial information

The financial statements have been prepared in accordance with IFRS adopted for use by the EU and also in accordance with the statutory provision of Part 9, Book 2, of the Netherlands Civil Code.

In preparing the consolidated financial statements the Group has adopted the following standards, amendments and interpretations:

- IFRS 8 *Operating Segments*. This converges International and US reporting requirements relating to segmental information.
- IAS 1 *Presentation of Financial Statements (Revised)*. This revises and enhances the presentation of information in the financial statements.
- IAS 27 *Consolidated and Separate Financial Statements*. This revises the accounting treatment of dividends paid out of the pre-acquisition reserves of subsidiaries.
- Share-based Payment: Vesting conditions and cancellations (Amendments to IFRS 2). This results in an immediate acceleration of the expense that would otherwise have been recognised in future periods should an employee decide to stop contributing to the savings plan. The amendment has no impact on the results of the Group.
- Improving disclosures about Financial Instruments (Amendments to IFRS 7). This requires enhanced disclosures about fair value measurements and liquidity risk.
- Annual Improvements 2008. This makes a number of improvements to existing standards.

The International Accounting Standards Board ("IASB") has issued the following standards, amendments and interpretations which apply from the dates shown. The Group has decided, where permitted, not to adopt any of these standards, amendments or interpretations in advance of their implementation date. The impact of adopting them is not expected to have a material effect on the results of the Group.

- IFRS 3 *Business Combinations (Revised)* (2010). This converges International and US reporting requirements relating to business combinations;
- IFRS 9 *Financial Instruments* (2013). IFRS 9 is the first phase of the project to replace IAS 39 *Financial Instruments: Recognition and Measurement* and deals with the classification and measurement of financial assets, including some hybrid contracts;
- IAS 24 *Related Party Disclosures* (2011). This amends the definition of a related party and clarifies its intended meaning;
- IAS 27 *Consolidated and Separate Financial Statements (Revised)* (2010). This revises the accounting for non-controlling interests and the loss of control of subsidiaries;
- Annual improvements 2009 (2010). This makes a number of minor improvements to existing standards and interpretations;
- Embedded Derivatives (Amendments to IFRIC 9 and IAS 39) (2010). This clarifies the treatment of embedded derivatives; and

- IFRIC 17 *Distributions of Non-Cash Assets to Owners* (2010). IFRIC 17 provides guidance on how an entity should account for distributions of non-cash assets to its owners, other than in limited circumstances.

In addition, the following standards, amendments and interpretations have been issued but are not currently relevant to the Group:

- IFRIC 18 *Transfers of Assets from Customers* (July 2009);
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (2011);
- Additional Exemptions for First-time Adopters (Amendments to IFRS 1) (2010);
- Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2) (2010);
- Classification of Rights Issues (Amendments to IAS 32) (2011); and
- Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14) (2011).

3. Acquisition of the Pearl businesses

With effect from 28 August 2009, the Company acquired 100% of the issued share capital of PGH (LCA) Limited (formerly Sun Capital Investments Limited), PGH (LCB) Limited (formerly Hera Investments One Limited), PGH (TC1) Limited (formerly SunCap Parma Topco Limited), PGH (TC2) Limited (formerly TDR Parma Topco Limited) and Opal Reassurance Limited, collectively the 'Pearl businesses', for a total consideration of £493 million. At the same time a third party's interest in a 49.4% holding in Ignis Investment Management Limited (formerly Axial Investment Management Limited) was purchased by Pearl Group Holdings (No. 2) Limited (formerly Pearl Group Limited) ("PGH2") for a consideration of £1. The Pearl businesses are involved in the management of various classes of insurance business and the provision of investment management services through their subsidiary companies.

On 2 September 2009, the date of legal completion of the acquisition, certain external debt of the Pearl businesses was restructured, specifically the £905 million Pearl facility, the £2,260 million Impala facility and the Royal London PIK notes and facility. Of the £825 million outstanding under the £905 million Pearl facility, £325 million was assigned to Phoenix Group Holdings in exchange for £75 million consideration, £75 million of the remaining £500 million was converted into two £37.5 million secured C loan notes and the terms of the remaining £425 million were amended. The terms of the £2,260 million Impala facility were also amended. Of the £350 million Royal London PIK notes and facility outstanding (comprising principal and capitalised interest), £250 million was assigned to Phoenix Group Holdings in exchange for the issue to Royal London of 1.5 million 'B' ordinary shares and 12.36 million warrants for 'B' ordinary shares. The terms of the remaining £100 million PIK notes and facility were then amended. The banks and other lenders involved in this restructuring are collectively known as "the Lenders".

The restructuring formed an integral part of the acquisition transaction and the effect of the restructuring has been incorporated in determining the fair values of certain liabilities at the acquisition date.

The acquisition has been accounted for using the purchase method of accounting. There were no accounting policy adjustments made to the carrying values.

The table below summarises the assets and liabilities acquired and the fair value adjustments made at the date of acquisition:

	Notes	Carrying value	Fair value adjust- ments	Fair value
		£m	£m	£m
Assets				
Intangible assets	33	1,839	850	2,689
Property, plant and equipment	34	35	—	35
Investment property	35	1,807	—	1,807
Financial assets		62,269	32	62,301
Deferred tax assets	28	98	—	98
Insurance assets		2,983	—	2,983
Current tax		20	—	20
Deferred acquisition costs		15	(15)	—
Prepayments and accrued income		562	—	562
Other receivables		821	21	842
Cash and cash equivalents		6,155	—	6,155
Total assets		76,604	888	77,492
Liabilities				
Pension scheme deficit	32	288	—	288
Liabilities under insurance contracts	20	51,413	—	51,413
Unallocated surplus	21	546	—	546
Borrowings		4,764	(529)	4,235
Other financial liabilities		16,450	—	16,450
Provisions	27	121	—	121
Deferred tax	28	474	319	793
Reinsurance payables		19	—	19
Payables related to direct insurance contracts		761	—	761
Current tax		54	—	54
Accruals and deferred income		296	(4)	292
Other payables		1,203	202	1,405
Total liabilities		76,389	(12)	76,377
Net assets		215	900	1,115
Less: Non-controlling interest				
UK Commercial Property Trust Limited	19			(181)
Perpetual Reset Capital Securities	19			(518)
Fair value of net assets acquired				416
Goodwill	33			77
Total consideration				493
Satisfied by:				
Issue of 40.7 million fully paid up 'B' shares to vendors	(a)			332
Issue of 26.5 million contingent rights over shares to vendors	(b)			143
Issue of warrants to lenders	(c)			4
Issue of 1 million contingent rights over shares in settlement of underwriting fee	(d)			5
Acquisition expenses	(e)			9
				493

The goodwill arising on the acquisition of the Pearl businesses is attributed to the Ignis Asset Management business and the management services operations within Phoenix Life.

The Pearl businesses contributed £514 million to total revenue, net of reinsurance and £178 million profit before tax attributable to owners for the period between the date of acquisition and the period end. The Group's consolidated profit before tax attributable to the owners for the year ended 31 December 2009 of £91 million comprises the entity loss before tax of £87 million together with this contribution from the Pearl businesses of £178 million.

If the acquisition of the Pearl businesses had been completed on the first day of the financial year, Group total revenue, net of reinsurance for the year would have increased by £1,081 million from £541 million to £1,595 million. However, the impact on Group profit has not been disclosed as it is impracticable to calculate this given the complex nature of the acquisition of the Pearl businesses and the associated acquisition accounting.

(a) The share consideration to the vendors included the issue of 40.7 million fully paid up 'B' ordinary shares. The fair value of this consideration was ascertained using the market price of the Company's shares as quoted on Euronext. The market price on the date of acquisition was €9.26 (£8.16).

(b) In addition to these 'B' ordinary shares 26.5 million contingent shares were also given to certain of the vendors. These shares will be issued to the vendors depending upon the future performance of the Company's share price as follows:

- 8,833,333 shares will be issued when the share price is greater than or equal to €13 for 20 consecutive trading days;
- 8,833,333 will be issued when the share price is greater than or equal to €14 for 20 consecutive trading days; and finally
- 8,833,334 will be issued when the share price is greater than or equal to €15 for 20 consecutive trading days.

There is no quoted market price for these contingent shares and therefore an appropriate valuation technique has been used to ascertain their fair value for accounting purposes. A Black-Scholes methodology has been used to value these contingent rights over shares as at the date of the acquisition. The key assumptions used to ascertain the fair value are as follows:

- share price as at the date of acquisition of €9.28;
- strike price of zero;
- zero dividend schedule (with dividend adjustment);
- zero stock borrowing cost assumption;
- volatility of 30%; and
- termination date of 2 September 2016.

The value of the contingent rights over shares has been calculated at €6.70 (£5.91) per share for the €13 threshold shares, €6.10 (£5.38) per share for the €14 threshold shares and €5.60 (£4.94) per share for the €15 threshold shares.

(c) As consideration for facilitating the acquisition, the Company issued 5 million warrants over its shares to the Lenders. The exercise of the warrants is dependent upon the performance of the business in that the warrants can be exercised at an exercise price of £15. There is no quoted market price for these warrants and therefore an appropriate valuation technique has been used to ascertain their fair value for accounting purposes. A Black-Scholes methodology has been used to value these warrants as at the date of the acquisition. The key assumptions used to ascertain the fair value are as follows:

- share price as at the date of acquisition of €9.28;
- volatility of 30%;
- the warrants are not adjusted for dividends;
- upside participation limited to 60%; and
- exercise period of 7 years.

The value of the warrants has been calculated at £0.75 per warrant. Details of these warrants are given in note 24.

(d) Prior to the acquisition the Company entered into an underwriting agreement with certain of its existing owners, to cover the value of any potential share redemption up to a maximum total of £75 million if required. One million 'B' ordinary shares are to be issued to the underwriters as a contingent fee for agreeing to perform this underwriting service. The issue of the shares is dependent upon the performance of the business in that the shares will be issued if the closing share price is greater than or equal to €15 for 20 consecutive trading days.

There is no quoted market price for these contingent rights over shares and therefore an appropriate valuation technique has been used to ascertain their fair value for accounting purpose. A Black-Scholes methodology has been used to value these contingent rights over shares as at the date of the acquisition. The key assumptions used to ascertain the fair value are as set out in (b) above. The value of these contingent rights over shares has been calculated at €5.6 (£4.94) per share.

(e) As part of the acquisition £9 million of professional fees were incurred. These have been capitalised and included within the total consideration. These costs were paid in the period.

4. Segment analysis

The Group defines and presents operating segments based on the information which is provided to the Board.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the Group.

For management purposes, the Group is organised into business units based on their products and services and has two reportable segments as follows:

- Phoenix Life – this segment manages a range of whole life, term assurance and pension products; and
- Ignis Asset Management – this segment provides investment management services to the life companies within the Group and to third parties, covering both retail and institutional investors.

Segment performance is evaluated based on profit or loss which in certain respects is measured differently from profit or loss in the consolidated financial statements. Group financing (including finance costs) and owner's taxes are managed on a Group basis and are not allocated to individual operating segments.

Inter-segment transactions are set on an arm's length basis in a manner similar to transactions with third parties. Segment results include those transfers between business segments which are then eliminated on consolidation.

Predominantly all revenues from external customers is sourced in the UK.

No revenue transaction with a single customer amounts to greater than 10% of the Group's revenue.

Predominantly all non-current assets are located in the UK.

4.1 Segmental results

2009	Phoenix Life	Ignis Asset Management	Unallocated corporate	Eliminations	Total
	£m	£m	£m	£m	£m
Net premiums written from:					
External customers	514	—	—	—	514
Other segment	—	—	—	—	—
	514	—	—	—	514
Fees from:					
External customers	71	30	—	—	101
Other segment	—	28	—	(28)	—
	71	58	—	(28)	101
Net investment income:					
Net investment income	1,095	—	(63)	—	1,032
Offset interest income on interest swaps against interest expenses	—	—	(16)	—	(16)
	1,095	—	(79)	—	1,016
Other operating income:					
Recurring	49	—	—	—	49
Non-recurring	18	—	—	—	18
	67	—	—	—	67
Net income	1,747	58	(79)	(28)	1,698
Net policyholder claims and benefits incurred:					
Recurring	(760)	—	—	—	(760)
Non-recurring	(74)	—	—	—	(74)
	(834)	—	—	—	(834)
Depreciation and amortisation:					
Depreciation of property, plant and equipment	(1)	(1)	—	—	(2)
Amortisation of acquired in-force business	(50)	—	—	—	(50)
Amortisation of other intangible assets	(6)	(1)	—	—	(7)
	(57)	(2)	—	—	(59)
Other operating expenses:					
Recurring	(562)	(43)	(17)	28	(594)
Non-recurring	(45)	(4)	—	—	(49)
	(607)	(47)	(17)	28	(643)
Total operating expense	(1,498)	(49)	(17)	28	(1,536)
Profit/(loss) before finance costs and tax	249	9	(96)	—	162
Finance costs	(22)	—	(65)	—	(87)
Offset interest income on interest swaps against interest expense	—	—	16	—	16
	(22)	—	(49)	—	(71)
Profit before tax	227	9	(145)	—	91
Tax attributable to policyholders' returns	60	—	—	—	60
Segmental result before the tax attributable to owners	287	9	(145)	—	151

4.2 Reconciliation of operating profit/(loss) before adjusting items to the segmental result

2009	Phoenix Life	Ignis Asset Management	Unallocated corporate	Eliminations	Total
	£m	£m	£m	£m	£m
Operating profit/(loss) before adjusting items	285	14	(17)	—	282
Investment return variances and economic assumption changes on long-term business	145	—	—	—	145
Variance on owners' funds	9	—	(79)	—	(70)
Amortisation of acquired in-force business	(45)	—	—	—	(45)
Amortisation of other intangible assets	(6)	(1)	—	—	(7)
Non-recurring items	(101)	(4)	—	—	(105)
Financing costs attributable to the owners	—	—	(49)	—	(49)
Segment results before the tax attributable to owners	287	9	(145)	—	151

Non-recurring items include:

- a charge of £78 million related to the court-approved Guaranteed Annuity Option Compromise scheme for Phoenix & London Assurance Limited. This removed longevity risk from the business whilst providing immediate policyholder cash enhancements and resulted in a charge recognised in the consolidated income statement as a change in insurance contract liabilities and administrative expenses of £74 million and £4 million respectively; and
- other non-recurring items of £27 million include costs associated with the Phoenix Life site rationalisation and associated staff reductions and the Group's transformation programme with its outsourcers.

4.3 Segmental total assets and total liabilities

2009	Phoenix Life	Ignis Asset Management	Unallocated corporate	Total
	£m	£m	£m	£m
Total assets	76,633	303	—	76,936
Total liabilities	(71,652)	(120)	(3,024)	(74,796)

4.4 2008 segmental analysis

In 2008 the results and net assets relate to unallocated corporate items.

5. Investment return variances and economic assumption changes

The long-term nature of much of the Group's operations means that, for internal performance management, the effects of short-term economic volatility are treated as non-operating items. The Group focuses instead on an operating profit measure that incorporates an expected return on investments supporting its long-term business. This note explains the methodology behind this.

5.1 Life assurance business

Operating profit for life assurance business is based on expected investment returns on financial investments backing owners and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities. Operating profit includes the effect of variance in experience for non-economic items, for example mortality, persistency and expenses, and the effect of changes in non-economic assumptions. Changes due to economic items, for example market value movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit.

The movement in liabilities included in operating profit reflects both the change in liabilities due to the expected return on investments and the impact of experience variances and assumption changes for non-economic items. The effect of differences between actual and expected economic experience on liabilities, and changes to economic assumptions used to value liabilities, are taken outside operating profit. For many types of long-term business, including unit linked and with profit funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. For other long-term business the profit impact of economic volatility depends on the degree of matching of assets and liabilities, and exposure to financial options and guarantees.

The investment variances and economic assumption changes excluded from the long-term business operating profit reflects the benefit of the reduction in credit spreads on corporate bonds and favourable equity, property and yield movements and are as follows:

	Period ended 31 December 2009	2008
	£m	**£m**
Investment return variances and economic assumption changes on long-term business	145	—

5.2 Owners' funds

For non long-term business including owners' funds, the total investment income, including realised and unrealised gains, is analysed between a calculated longer term return and short-term fluctuations.

The variances excluded from operating profit in relation to owners' funds are as follows:

	Period ended 31 December 2009	2008
	£m	**£m**
Variances on owners' funds of:		
Subsidiary undertakings	9	—
The Company	(79)	33
	(70)	33

The variances on owners' funds of the Company comprises unrealised fair value losses arising from movements in the fair value of warrants in issue over the Company's shares together with foreign exchange losses experienced in the year.

5.3 Calculation of the long-term investment return

The expected return on investments for both owner and policyholder funds is based on opening economic assumptions applied to the funds under management at the beginning of the reporting period. Expected investment return assumptions are derived actively, based on market yields on risk-free fixed interest assets at the start of each financial year. The same margins are applied on a consistent basis across the Group to gross risk-free yields, to obtain investment return assumptions for equities and properties.

The principal assumptions underlying the calculation of the longer term investment return are:

	2009	Period ended 31 December 2008
	%	%
Equities	6.3	—
Property	5.8	—
Gilts (15 year gilt)	3.7	—
Other fixed interest (15 year gilt plus 0.6%)	4.3	—

6. Fees

	2009	Period ended 31 December 2008
	£m	£m
Fund management based fees	30	—
Investment contract income	71	—
	101	—

7. Net investment income

	2009	Restated Period ended 31 December 2008
	£m	£m
Investment income		
Interest income on loans and receivables	76	16
Interest income on financial assets designated at fair value through profit or loss on initial recognition	818	—
Dividend income	321	—
Rental income	52	—
Net expected return on pension assets	(9)	—
	1,258	16
Fair value gains/(losses)		
Financial assets at fair value through profit and loss		
Held for trading – derivatives	(385)	—
Designated upon initial recognition	—	17
Investment property	159	—
	(226)	17
Net investment income	1,032	33

8. Other operating income

	2009	Period ended 31 December 2008
	£m	£m
General business result	2	—
Income under Royal London transitional services agreement	31	—
Insurance claim	11	—
Other income	23	—
	67	—

9. Acquisition costs

	2009	Period ended 31 December 2008
	£m	£m
Acquisition costs paid	8	—

10. Administrative expenses

	2009	Period ended 31 December 2008
	£m	£m
Employee costs	65	—
Outsourcer expenses	58	—
Investment management expenses and transaction costs	73	—
Non-recurring administrative expenses	27	—
Operating expenses in respect of investment properties	11	—
Depreciation of property, plant and equipment	2	—
Other	19	2
	255	2

Employee costs comprise:

	2009	Period ended 31 December 2008
	£m	£m
Wages and salaries	56	—
Social security contributions	5	—
Other pension costs	4	—
	65	—

	2009 Number	2008 Number
Average number of persons employed		
Phoenix Life	875	—
Ignis Asset Management	534	—
	1,409	—

The average number of employees has been presented for the period following the acquisition of the Pearl businesses on 28 August 2009.

11. Auditors' remuneration

The remuneration of the auditors of the Company, including their associates, in respect of services supplied to entities included in the consolidated financial statements was £7.2 million (2008: £0.1 million). No services were provided to associated pension schemes.

	2009	Period ended 31 December 2008
	£m	£m
Audit of the consolidated financial statements	0.8	0.1
The auditing of accounts of associates of the Company pursuant to legislation	3.5	—
Other services supplied pursuant to such legislation:		
Audit related	0.7	—
Services as reporting accountants	0.2	—
Other services:		
Audit of MCEV supplementary information	0.6	—
Other	1.4	—
	7.2	0.1

12. Finance costs

	2009	Period ended 31 December 2008
	£m	£m
Interest expense		
On borrowings at amortised cost	64	—
On borrowings at fair value through profit or loss	23	—
	87	—
Attributable to		
– policyholders	22	—
– owners	65	—
	87	—

13. Tax (credit)/charge

13.1 Current year tax (credit)/charge

	2009	Period ended 31 December 2008
	£m	£m
Current tax:		
UK Corporation tax	(15)	—
Overseas tax	5	—
	(10)	—
Adjustment in respect of prior years	(3)	—
	(13)	—
Deferred tax:		
Reversal/(origination) of temporary differences	(51)	—
On non profit surpluses	(17)	—
On amortisation of acquired in-force business		
On profit arising from the changes in assumptions used for determining insurance liabilities in accordance with PS 06/14	(5)	—
Capital allowances in excess of depreciation	1	—
Pension scheme movements	16	—
On provisions for future expenditure	(12)	—
Utilisation of tax losses	63	—
Tax losses arising in the current year carried forward	(26)	—
	(31)	—
Total tax credit	(44)	—
Attributable to:		
– policyholders	(60)	—
– owners	16	—
	(44)	—

The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK life assurance policyholder earnings is included in income tax expense. The tax benefit attributable to policyholder earnings was £60 million (2008: £nil).

13.2 Tax charged to other comprehensive income

	2009	Period ended 31 December 2008
	£m	£m
Deferred tax on actuarial gains of defined benefit schemes	31	—

13.3 Reconciliation of tax credit

	2009	Period ended 31 December 2008
	£m	£m
Profit before tax	91	—
Policyholder tax credit	60	—
Profit before the tax attributable to owners	151	—
Tax at standard UK* rate of 28%	42	—
Net tax losses on corporate restructuring that matched in accounts	(63)	—
Disallowable expenses	10	—
Adjustment to tax charge in respect of prior years	(3)	—
Decrease in deferred tax on movement in non profit surplus	(51)	—
Policyholder tax calculation methodology	48	—
Tax relief on accrued interest not valued	11	—
Profits taxed at rates other than 28%	12	—
Other	10	—
Owners' tax charge	16	—
Policyholder tax credit	(60)	—
Total tax credit for the year	(44)	—

* The Group's two operating segments operate predominantly in the UK. The reconciliation of the tax credit has therefore been completed by reference to the standard rate of UK tax rather than by reference to the Jersey income tax rate of zero percent which is applicable to Phoenix Group Holdings.

14. Dividends on ordinary shares

On 30 March 2010 the Board declared a dividend in respect of 2009. Information on this is given in note 48. No dividends have been declared in respect of the previous period.

15. Earnings per share

The profit attributable to owners for the purposes of computing earnings per share has been calculated as set out below. This is after adjusting for profits attributable to non-controlling interests.

	2009	Restated Period ended 31 December 2008
	£m	£m
Profit for the year	135	31
Share of result attributable to non-controlling interests	(40)	—
Profit attributable to owners	95	31

The basic earnings per share of 102.9p (2008: 58.1p) has been based on the profit of £95 million (2008 Restated: £31 million) and a weighted average number of ordinary shares outstanding during the year of 92 million (2008: 53 million), calculated as follows:

	2009 Number	Restated 2008 Number
	million	**million**
Issued ordinary shares at beginning of the year	53	—
Effect of ordinary shares issued/redeemed	39	53
Weighted average number of ordinary shares	92	53

The diluted earnings per share of 89.8p (2008: 45.1p) has been based on the profit of £95 million (2008: £31 million) and a diluted weighted average number of ordinary shares outstanding during the year of 106 million (2008: 69 million) calculated as follows:

	2009 Number	Restated 2008 Number
	million	**million**
Weighted average number of ordinary shares	92	53
Effect of warrants in issue	14	16
Weighted average number of ordinary shares (diluted)	106	69

The Founders', Sponsors' and IPO warrants issued in 2008 were dilutive up until 2 September 2009 and had the effect of increasing the weighted average number of ordinary shares by 14 million in calculating the diluted weighted averaged number of ordinary shares.

The following instruments could potentially dilute basic earnings per share in the future but have not been included in the diluted earnings per share figure because they are anti-dilutive for the periods presented:

– 5 million warrants issued to the Lenders on 2 September 2009;

– 12.36 million warrants issued to Royal London on 2 September 2009; and

– The Founders', Sponsors' and IPO warrants from 2 September 2009 on which date the exercise price of the outstanding warrants was increased from €7 to €11.

Details of the warrants are given in note 24.

The following contingently issuable shares were not included in the diluted earnings per share figure as none of the conditions would have been satisfied and therefore no shares would have been issued:

– 26.5 million contingent rights over shares issued to the vendors on 2 September 2009 as part of the consideration for the acquisition of the Pearl businesses. These are payable in three tranches conditional upon the share price reaching thresholds of €13, €14 and €15 for 20 consecutive dealing days;

– 1 million contingent rights over shares were granted in satisfaction of the contingent underwriting fee. These are payable on the condition that the share price reaches €15; and

– 8.5 million contingent rights over shares were granted on 2 September 2009 to the Lenders in part satisfaction of the financing fees incurred by the UK finance companies. These are payable in three tranches conditional upon the share price reaching thresholds of €13, €14 and €15 for 20 consecutive dealing days.

16. Share capital

	2009	2008
	£	£
Authorised:		
300 million (2008: 300 million) ordinary shares of €0.0001 each	22,050	22,050
110 million (2008: nil) 'B' ordinary shares of €0.0001 each	9,700	—
Nil (2008: 1 million) preferred shares of €0.0001 each	—	74
	31,750	22,124
Issued and fully paid:		
80.4 million (2008: 75 million) ordinary shares of €0.0001 each	6,067	5,583
49.8 million (2008: nil) 'B' ordinary shares of €0.0001 each	4,383	—
	10,450	5,583

The holders of the ordinary and 'B' ordinary shares have the same rights to returns and voting. The holders are entitled to one vote per share on matters to be voted on by owners and to receive such dividends, if any, as may be declared by the Board of Directors in its discretion out of legally available profits.

Ordinary shares and 'B' ordinary shares comprise 62% and 38% respectively of total issued shares.

Movements in share capital during the period:

	2009	2009	2008	2008
	Number	£	Number	£
Share in issue at 1 January 2009 (2 January 2008)	75,000,000	5,583	—	—
Ordinary shares issued to Founders at €0.00124 per unit	—	—	20,125,000	1,505
Redemption of Founders ordinary shares at par	—	—	(5,125,000)	(388)
IPO of ordinary shares	—	—	60,000,000	4,466
'B' ordinary shares issued on acquisition of the Pearl businesses	40,700,000	3,588	—	—
Ordinary shares issued in part settlement of debt restructuring fees	3,500,000	307	—	—
'B' ordinary shares issued in part settlement of debt restructuring fees	7,070,000	620	—	—
'B' ordinary shares issued on assignment of PIK notes and facility	1,500,000	131	—	—
'B' ordinary shares issued to the employee trust	500,000	44	—	—
Ordinary shares redeemed on acquisition of the Pearl businesses	(6,038,344)	(533)	—	—
Ordinary shares issued on conversion of warrants	7,969,076	710	—	—
Shares in issue at 31 December	130,200,732	10,450	75,000,000	5,583

On 2 September 2009, 3,500,000 ordinary shares and 7,070,000 'B' ordinary shares were issued in part settlement of debt restructuring fees at a premium of £96 million. On the same date, 40,700,000 'B' ordinary shares were issued to the vendors as consideration for the acquisition of the Pearl businesses. These were issued at a premium of £332 million. A further 1,500,000 'B' ordinary shares were issued in exchange for assignment of a PIK notes and facility, and were issued at a premium of £12 million. 500,000 'B' ordinary shares were issued to the Pearl Group Limited Employee Benefit Trust ("PGL EBT") at a premium of £4 million.

On 2 September 2009, 6,038,344 ordinary shares were redeemed at a premium of £41 million.

During the period, 63,298,332 warrants were converted into 7,969,076 ordinary shares. These shares were issued at a premium of £55 million.

17. Shares held by employee trust

	£m
At 2 January 2008 and 1 January 2009	—
Issued in year	4
At 31 December 2009	4

This reserve represents the value of the shares transferred to the PGL EBT to satisfy awards granted to employees under the Bonus Share Plan ("BSP") and the Long Term Incentive Plan ("LTIP"). The number of shares held by the PGL EBT at 31 December 2009 was 500,000 (2008: nil).

18. Share-based payment

Equity-settled share-based payments

On 11 January 2008, the Company issued and sold to the Sponsors 8,000,000 Sponsors' warrants in a private placement immediately prior to the consummation of its IPO. The material terms and conditions of the warrants are as for the Founders' and IPO warrants and the details are disclosed in note 24. The fair value of the Sponsors' warrants was estimated by using a binominal valuation model on the date of issue based on certain assumptions.

The Sponsors' warrants were valued at €2.23 on the date of issue before taking account of the trading restriction. The Sponsors gave an undertaking that they would not transfer or sell any of the Sponsors' warrants, or any shares derived from the Sponsors' warrants, until one year after the Company consummated a business combination. Such a restriction reduced the fair value of the Sponsors' warrants below the market value of the public warrants which can be freely traded. The value was reduced to €1.56 on the date of issue after taking into consideration this restriction, using a 30% discount. As the Sponsors paid €1.00 for the warrants, the difference in value of €0.56 is required to be recognised as a charge which equates to £4 million. The fair value of £4 million has been charged over the two-year vesting period. For the year ended 31 December 2009 £2 million has been recognised as a share-based payment charge (31 December 2008: £2 million).

The following information was relevant in the determination of the fair value of the Sponsors' warrants:

Share price:	€10.00
Exercise price:	€7.00
Expected life:	an expected life equal to the maturity of the option of 5 years is used.
Risk free rate:	3.422% being the yield on German Government Bonds on 13 February 2008.
Volatility:	26% which is the average volatility of shares in a sample of 10 companies with a similar market capitalisation.
Dividend yield:	zero

On 2 September 2009, one half of the 8,000,000 outstanding Sponsors' warrants were converted into 385,838 ordinary shares and the exercise price of the remaining 4,000,000 warrants was increased to €11.00. As the terms of these remaining warrants were modified before vesting, this resulted in a change of fair value. An increase in the exercise price decreases the fair value and therefore, in accordance with IFRS 2, there was no change to the original accounting.

On 24 July 2009, the Company's owners approved the adoption of a suite of share-based incentive plans including the BSP and the LTIP. On 2 September 2009 500,000 'B' ordinary shares were issued to the trustees of the PGL EBT and on 21 September 2009 the Board of Phoenix Group Holdings made recommendations for awards to the Trustee of the PGL EBT in respect of 403,750 'B' ordinary shares under each of the BSP and the LTIP, and approved the issue of a further 307,500 'B' ordinary shares to the trustee of the PGL EBT to be held, together with the original 500,000 'B' ordinary shares, on an unallocated basis pending satisfaction of the performance and vesting conditions. A letter of wishes from Phoenix Group Holdings to the Trustee of the PGL EBT requested the apportionment of 403,750 shares to named individuals under each of the BSP and the LTIP, following satisfaction of performance and vesting conditions. The additional 307,500 shares have not yet been issued to the Trustee of the PGL EBT and the Company is now considering whether these shares should be issued to the Trustee of the PGL EBT, or whether other arrangements should be implemented to enable the Trustee to acquire these shares on market.

The rules for the BSP and the LTIP anticipate that awards to participants will be subject to 2-year and 3-year vesting periods respectively. The rules also note that there are no performance conditions associated with the BSP and following a meeting of the Board of Phoenix Group Holdings on 21 September 2009, the performance conditions attaching to the awards under the LTIP will be the achievement of a premium listing on the London Stock Exchange ("LSE").

As there either are no performance criteria (BSP), or that the performance criteria are considered likely to be met (LTIP) the fair value of the awards has been determined assuming that all granted shares vest. The share price at 21 September 2009 has been used in determining the fair value of these awards, this date being the start of the vesting period. The resulting 2009 expense to be recognised in the consolidated income statement in relation to these schemes is £0.6 million (2008: £nil) based on a charge from 21 September 2009 and 2 and 3-year vesting periods for the BSP and LTIP respectively.

On 24 September 2009 it was agreed to grant to the Chairman 300,000 'B' ordinary shares as part of the remuneration package to secure his appointment. The grant date of this award is the 24 September 2009 which is the date the Chairman's contract of employment was signed. All vesting conditions are considered to have been met on this date as by signing the contract the Chairman joined the Group and his appointment was thereby secured. The fair value of the award has been determined assuming that all shares vest and using a share price at 24 September 2009 of €9.35. The expense recognised in the income statement in relation to this award is £2.5 million (2008: £nil). After 31 December 2009, the terms of the Chairman's award were amended. Details of these changes can be found in the 'Directors' Interests' section of the Remuneration Report.

19. Non-controlling interests

	Perpetual Reset Capital Securities	UK Commercial Property Trust Limited	Total
	£m	£m	£m
At 2 January 2008 and 1 January 2009	—	—	—
On acquisition of the Pearl businesses	518	181	699
Profit for the year	9	31	40
Dividends paid	—	(8)	(8)
Effect of share transactions	—	(3)	(3)
At 31 December 2009	527	201	728

19.1 Perpetual Reset Capital Securities

Pearl Group Holdings (No. 1) Limited ("PGH1") has in issue £500 million of Perpetual Reset Capital Securities ("the Notes") which are admitted to the Official List of the UK Listing Authority and to trading on the LSE.

The Notes are unsecured obligations of PGH1 and are subordinate to the claims of senior creditors. Payments in respect of the Notes are conditional upon PGH1 being solvent at the time of payment and immediately following such payment.

The Notes have no fixed maturity date and interest payments may be deferred at the option of PGH1; accordingly the Notes meet the definition of equity for financial reporting purposes. The Notes also meet the conditions for Innovative Tier 1 capital treatment in the calculation of the Group Capital Resources under the rules of the FSA. As the Notes are not directly held by the Company, these are disclosed as a non-controlling interest in the consolidated financial statements.

The Notes may be redeemed at par at the option of PGH1 on the first reset date of 25 April 2016 or on any coupon payment date thereafter. Redemption is subject to the agreement of the FSA. In certain circumstances PGH1 has the right to substitute the Notes or to redeem the Notes before the first reset date.

Coupons are payable annually in arrears on 25 April, at the rate of 6.5864% per annum, until the first reset date. Thereafter coupons are payable semi-annually at 2.73% per annum over the then prevailing offered rate for six-month sterling deposits. The consent of certain Lenders is required to enable the payment of coupons due in 2010 and thereafter.

If PGH1 opts to defer a coupon payment, then PGH1 has the option to either leave the coupon outstanding or satisfy the deferred coupon payment by the issue of securities ("ACSM instruments") by either PGH1 or a special purpose subsidiary of PGH1 established for the purpose of issuing ACSM instruments and which are guaranteed by PGH1. The obligations of PGH1 in respect of such securities, or if applicable, guarantee will be subordinated to and rank or be expressed to rank junior to the Notes as to rights to payments of interest and participation in the assets of PGH1 in a winding up and shall comply with the then current requirements of the FSA in relation to Tier 1 Capital. ACSM instruments will in the first instance be offered to related parties (as defined in the Terms and Conditions of the Notes as amended by the Supplemental Trust Deed dated 30 July 2008) and to third parties if not purchased by related parties. In the event that neither such related parties nor third parties will purchase the required ACSM instruments then PGH2 is required to use its best endeavours to raise such funds as are deemed necessary to purchase the required amounts of ACSM instruments.

For so long as a deferred coupon payment has not been satisfied PGH1 may not declare, pay or distribute a dividend on any of its securities in issue ranking junior to the Notes including the ordinary shares of PGH1 or any parity securities or, except in particular circumstances, redeem, purchase or otherwise acquire any of its securities in issue ranking junior to the Notes, including its ordinary shares or any parity securities.

On 25 March 2009, the Board of PGH1 gave notice to the holders of the Notes of its decision to defer the coupon payment on the Notes at the next payment date of 25 April 2009 and PGH1 indicated that it had no present intention to initiate the ACSM.

On 23 March 2010, PGH1 gave notice to the holders of the Notes of its decision to defer the coupon on the Notes which would otherwise have been due for payment on 25 April 2010. PGH1 announced that if certain amending proposals were agreed by the Noteholders this notice would be withdrawn and the 2010 coupon would be paid in full on the first business day after the payment date of 25 April 2010; in addition the deferred 2009 coupon will be paid by 31 December 2010. These amending proposals were agreed by the Noteholders on 22 April 2010 and the 2010 coupon paid on 26 April 2010. Further information on this is given in note 48.

19.2 UK Commercial Property Trust Limited

UK Commercial Property Trust Limited ("UKCPT") is a property investment subsidiary which is domiciled in Guernsey and listed on the LSE.

20. Liabilities under insurance contracts

	Gross liabilities 2009	Reinsurers' share 2009	Gross liabilities 2008	Reinsurers' share 2008
	£m	£m	£m	£m
Life assurance business:				
Insurance contracts	38,965	2,860	—	—
Investment contracts with DPF	11,326	—	—	—
	50,291	2,860	—	—
Amounts due for settlement after 12 months	40,150	2,722	—	—

	Gross liabilities	Reinsurers' share
	£m	£m
At 2 January 2008 and 1 January 2009	—	—
On acquisition of the Pearl businesses	51,413	2,689
Premiums	545	31
Claims	(2,043)	(105)
Other changes in liabilities	361	216
Foreign exchange adjustments	15	29
At 31 December 2009	50,291	2,860

21. Unallocated surplus

	2009	2008
	£m	£m
At 2 January 2008 and 1 January 2009	—	—
On acquisition of the Pearl businesses	546	—
Transfer from income statement	175	—
At 31 December 2009	721	—

22. Borrowings

	2009	2008
	£m	£m
Carrying value		
Debenture loans		
Limited recourse bonds 2012 7.39% (note a)	48	—
Limited recourse bonds 2022 7.59% (note a)	86	—
Unsecured loan notes (note b)	18	—
£200 million 7.25% unsecured subordinated loans (note c)	119	—
£779 million loan (note d)	764	—
£15 million loan (note e)	15	—
£2,260 million syndicated loan (note f)	2,260	—
£80 million facility agreement (note g)	42	—
£100 million PIK notes and facility (note h)	102	—
£75 million secured loan note (note i)	70	—
£425 million loan facility (note i)	399	—
	3,923	
Refinancing loan (note j)	258	—
	4,181	—
Amount due for settlement after 12 months	4,086	—

	2009	2008
	£m	£m
Fair value		
Debenture loans		
Limited recourse bonds 2012 7.39% (note a)	45	—
Limited recourse bonds 2022 7.59% (note a)	93	—
Unsecured loan notes (note b)	18	—
£200 million 7.25% unsecured subordinated loans (note c)	156	—
£779 million loan (note d)	751	—
£15 million loan (note e)	14	—
£2,260 million syndicated loan (note f)	2,260	—
£80 million facility agreement (note g)	42	—
£100 million PIK notes and facility (note h)	102	—
£75 million secured loan note (note i)	70	—
£425 million loan facility (note i)	399	—
	3,950	
Refinancing loan (note j)	258	—
	4,208	—

Debenture loans

(a) In 1998, National Provident Institution raised £260 million of capital through the securitisation of embedded value on a block of existing unit linked and unitised with profit life and pension policies. Following the demutualisation of National Provident Institution, these were transferred to National Provident Life Limited ("NPLL"). The bonds are split between two classes, which rank pari passu. The £140 million 7.39% class A1 limited recourse bonds with an outstanding principal of £42 million have an average remaining life of 2 years maturing in 2012. The £120 million 7.59% limited recourse bonds with an outstanding principal of £120 million have an average remaining life of 9 years maturing in 2022. NPLL has provided collateral of £88 million to provide security to the holders of the NPLL recourse bonds in issue.

Phoenix Group Holdings acquired these bonds as part of the acquisition of the Pearl businesses and they were recognised at their fair value.

(b) Unsecured loan notes of £72 million were issued by Impala Holdings Limited ("Impala") at par on 14 May 2008 at an interest rate of LIBOR minus 1% per annum with a final maturity date of 2012. Phoenix Group Holdings acquired these loan notes as part of the acquisition of the Pearl businesses and they were recognised at their fair value. As at 31 December 2009 £54 million of these loan notes had been repaid and £18 million were outstanding.

(c) Scottish Mutual Assurance Limited ("SMA") issued £200 million 7.25% undated, unsecured subordinated loan notes on 23 July 2001. The earliest repayment date of the notes is 25 March 2021 and thereafter on each fifth anniversary so long as the notes are outstanding. With effect from 1 January 2009, as a part of a Part VII transfer, these loan notes were transferred into the shareholder fund of Phoenix Life Limited ("PLL"). PLL has entered into interest rate swap agreements with Abbey National Treasury Services plc, the effect of which is to convert the fixed interest expense on the notes to a floating rate expense. In the event of the winding up of PLL, the right of payment under the notes is subordinated to the rights of the higher-ranking creditors (principally policyholders). Phoenix Group Holdings acquired these loan notes as part of the acquisition of the Pearl businesses and they were recognised at their fair value.

(d) On 3 June 2008, Axial Fixed Income Opportunities S.a.r.l. issued A loans consisting of €459,886,325; £39,480,573 and US$288,125,702. On 13 June 2008, Axial Fixed Income Opportunities S.a.r.l. issued further A loans of £128,401,000 and on 11 July 2008, Axial Fixed Income Opportunities S.a.r.l. issued further A loans of US$29,780,400. These loans accrue interest at LIBOR plus 125 bps and mature in May 2016. Phoenix Group Holdings acquired these loans as part of the acquisition of the Pearl businesses and they were recognised at their fair value.

(e) On 3 June 2008, Axial Fixed Income Opportunities S.a.r.l. issued B loans consisting of €9,397,311; £3,015,429 and US$4,476,558. These loans accrue a fixed interest rate of 0.1% plus a variable profit-related element and mature in May 2016. Phoenix Group Holdings acquired these loans as part of the acquisition of the Pearl businesses and they were recognised at their fair value.

(f) On 14 May 2008, PGH (LC1) Limited and PGH (LC2) Limited jointly obtained a £2,260 million loan facility from a syndicate of external banks (the "Impala Facility"). This facility was split into Tranche loans A, B and C of £1,275 million, £492.5 million and £492.5 million respectively. For financial reporting purposes, Phoenix Group Holdings was deemed to have acquired this facility as part of the acquisition of the Pearl businesses and it was recognised at its fair value. The terms of this facility were subsequently amended on 2 September 2009, to the following:

- Tranche A loan of £1,275 million is repayable over the period from 30 April 2011 to 30 November 2014 and attracts interest at LIBOR plus a cash margin of 1.00% and a PIK margin of 1.00% for the first four years, and LIBOR plus a cash margin of 2.50% for the subsequent years;
- Tranche B loan of £492.5 million is repayable on 30 November 2015 and attracts interest at LIBOR plus a cash margin of 1.25% and a PIK margin of 0.75% for the first four years, and LIBOR plus a cash margin of 3.25% for the subsequent years; and
- Tranche C loan of £492.5 million is repayable on 30 November 2016 and attracts interest at LIBOR plus a cash margin of 1.75% and a PIK margin of 0.25% for the first four years, and LIBOR plus a cash margin of 3.75% for the subsequent years.

The borrowings under the £2,260 million facility are secured by:

- first fixed and floating charges over all the assets and undertaking of PGH (LC1) Limited and PGH (LC2) Limited (including their respective 12.5% shareholding in Impala, all real estate, book debts, bank accounts, investments and other assets); and
- a limited recourse share charge granted by PGH2 over its 75% shareholding in Impala.

(g) In 2008, UKCPT entered into an £80 million revolving loan facility agreement with Lloyds TSB. This loan accrues interest at LIBOR plus a variable margin of 0.50% to 0.70% per annum. The lender holds a floating charge over certain assets of UKCPT and its subsidiaries. The repayment date for this facility is 19 June 2015.

(h) On 14 May 2008, PGH (MC1) Limited issued PIK notes for the value of £154.5 million to Royal London and PGH (MC2) Limited obtained a £154.5 million PIK facility from Royal London. On 2 September 2009, £250 million in aggregate of the PIK notes and the facility outstanding (comprising principal and capitalised interest) was assigned to Phoenix Group Holdings as part of the acquisition of the Pearl businesses in exchange for the issue of 1.5 million shares and 12.36 million warrants. The acquired PIK notes and facility were recognised at their fair value. Interest accrues on the PIK notes and facility at LIBOR plus a margin of 2% unless an election is made by PGH (MC1) Limited or PGH (MC2) Limited to capitalise the interest, in which case the margin increases to 3.5%. In December 2009, interest of £2.3 million was capitalised on the PIK notes and facility. The final maturity date on the PIK notes and facility is 30 June 2019.

(i) On 15 November 2006, PGH (LCA) Limited and PGH (LCB) Limited jointly became a party to a £905 million loan facility from a syndicate of external banks. For financial reporting purposes, Phoenix Group Holdings was deemed to have acquired this facility as part of the acquisition of the Pearl businesses and it was recognised at its fair value. On 2 September 2009, this facility was restructured as follows:

- £75 million of the existing facility was converted into two £37.5 million secured C loan notes repayable after 15 years and attracting interest at LIBOR plus a margin of 1.00%;

- £325 million of the existing facility was assigned to Phoenix Group Holdings from the lending banks for consideration of £75 million, with a maturity date of 30 June 2016, attracting interest at LIBOR plus a margin of 1.25%; and
- the terms of the remaining £425 million outstanding under the existing facility were amended and the facility is repayable over the period from 30 June 2011 to 30 June 2016, attracting interest at LIBOR plus a margin of 1.25%.

The borrowings under the £425 million facility are secured by first fixed and floating charges over all of the assets and undertakings of PGH (LCA) Limited and PGH (LCB) Limited (including their respective 50% shareholdings in Phoenix Life Holdings Limited ("PLHL"), all real estate, book debts, bank accounts, investments and other assets).

Refinancing loan

(j) The refinancing loan from Abbey National plc was acquired as part of the acquisition of the Pearl businesses. The loan was brought into the consolidated financial statements at fair value. It relates to the sale of Extra-Income Plan policies that Abbey National plc finances to the value of the associated property reversions. As part of the arrangement Abbey National plc receive an amount calculated by reference to the movement in the Halifax House Price Index and NPLL and NPI Limited ("NPI") have undertaken to indemnify Abbey National plc against profits or losses arising from mortality or surrender experience which differs from the basis used to calculate the reversion amount. Repayment will be on a policy-by-policy basis and is expected to occur over the next 10 to 20 years.

23. Deposits received from reinsurers

	2009	2008
	£m	£m
Carrying value		
At 31 December	431	—
Amount due for settlement after 12 months	394	—

	2009	2008
	£m	£m
Fair value		
At 31 December	431	—

In addition to receiving the cash collateral set out above, it is the Group's practice to obtain collateral in the form of marketable securities. This collateral is held on behalf of the Group and is not recognised on the statement of consolidated financial position as either an asset or an associated liability as the Group is not permitted to sell or re-pledge the collateral in the absence of default. The total value of the collateral held under such arrangements in respect of reinsurance treaties was £1,846 million (2008: £nil).

24. Derivatives

The Group purchases derivative financial instruments in connection with the management of its insurance contract and investment contract liabilities based on the principles of reduction of risk and efficient portfolio management.

The fair values of derivative financial instruments are as follows:

	2009 Assets	2009 Liabilities	2008 Assets	Restated 2008 Liabilities
	£m	£m	£m	£m
Warrants over shares in Phoenix Group Holdings	—	23	—	11
Forward currency	189	181	—	—
Credit default options	4	29	—	—
Interest rate swaps	1,683	1,430	—	—
Swaptions	285	—	—	—
Inflation swaps	20	2	—	—
Total return bond swaps	27	—	—	—
Equity options	191	—	—	—
Stock index futures	1,141	1,177	—	—
	3,540	2,842	—	11

The amount recoverable after one year is £2,143 million (2008: £nil). The amount payable after one year is £1,394 million (2008: £nil).

Certain cash collateral on derivatives is available to the Group for investment purposes and is therefore recognised as a financial asset and a liability, recorded as 'Obligations for repayment of collateral received' in the statement of consolidated financial position. At 31 December 2009, the amount of collateral recognised as a financial asset and 'Obligations for repayment of collateral received' amounted to £1,041 million (2008: £nil) and £1,099 million (2008: £nil) respectively.

Where collateral has been pledged by the Group and the right of set off is only enforceable on the occurrence of a particular future event then the pledged asset continues to be recognised by the Group. On the same basis the Group does not recognise collateral pledged by counterparties. Off balance sheet derivative collateral at 31 December 2009 which has been pledged to/by the Group amounted to £188 million (2008: £nil) and £455 million (2008: £nil) respectively.

Warrants over share in Phoenix Group Holdings

In 2008 Phoenix Group Holdings issued 20.12 million Founders' warrants and 60 million IPO warrants. On 2 September 2009 12.36 million warrants were issued to Royal London and 5 million were issued to the Lenders. The table below shows a reconciliation of the outstanding number of these warrants:

	IPO warrants	Founders' warrants	Lenders warrants	Royal London warrants
	Number	Number	Number	Number
At 2 January 2008	—	—	—	—
Issuance to Founders (10 January 2008)	—	20,125,000	—	—
Redemption from Founders (5 February and 11 March 2008)	—	(5,125,000)	—	—
Initial Public Offering (13 February 2008)	60,000,000	—	—	—
At 31 December 2008	60,000,000	15,000,000	—	—
Forfeiture of Founders' warrants and shares (2 September 2009)	—	(63,600)	—	—
Conversion of 50% of outstanding warrants into ordinary shares (2 September 2009)	(30,000,000)	(7,468,200)	—	—
Issue of warrants to Royal London and Lenders (2 September 2009)	—	—	5,000,000	12,360,000
Conversion of IPO warrants into new ordinary shares (31 December 2009)	(21,830,132)	—	—	—
At 31 December 2009	8,169,868	7,468,200	5,000,000	12,360,000

IPO and Founders' warrants

The IPO and Founders' warrants originally entitled the holder to purchase one ordinary share at a price of €7.00 per share, subject to adjustment, at any time commencing on the consummation of a business combination. On 2 September 2009 the exercise price was increased to €11.

The exercise period commenced on the later of:

- consummation by the Company of a business combination; and
- first anniversary of the date the units are admitted to trading on Euronext.

The warrants will expire at the close of trading on Euronext on the first business day after 6 February 2013 or earlier upon redemption or liquidation. Once the warrants become exercisable, the Company may call the warrants for redemption:

- in whole but not in part;
- at a price of €0.01 per warrant;
- upon not less than 30 days' prior written notice of redemption to each warrant holder; and
- if, and only if, the reported last sale price of the share equals or exceeds €13.75 per share for any 20 trading days within a period of 30 consecutive trading days ending on the third business day prior to the notice of redemption to warrant holders. On 2 September 2009 the threshold of €13.75 was increased to €16.50.

If the foregoing conditions are satisfied and the Company issues notice of redemption of the warrants, each warrant holder shall be entitled to exercise their warrant prior to the scheduled redemption date. However, the price of the shares may fall below the redemption trigger price or the warrant exercise price after the redemption notice is issued.

If the Company calls the warrants for redemption as described above, it will have the option to require any holder that wishes to exercise its warrant (including the Founders' warrants) to do so on a cashless basis.

The Founders' and IPO warrants are listed and are valued using the warrant price quoted on Euronext for the Company. At 31 December 2009 the Founders' warrants were valued at £7 million (2008: £2 million) and the IPO warrants were valued at £8 million (2008: £9 million).

Lenders' warrants

On 2 September 2009, the Company issued 5 million warrants over its shares to the Lenders. These warrants entitle the holder to purchase one 'B' ordinary share at a price of £15 per share, subject to adjustment. Following the achievement of a premium listing of the ordinary shares on the LSE, the Lenders' warrants will be over ordinary shares rather than 'B' ordinary shares.

The exercise period commences on the date of the warrant agreement and terminates on the first to occur of:

- 15th anniversary of the date issued;
- date fixed for the redemption of the warrants; and
- liquidation of the Company.

The Company can issue a similar number of ordinary shares instead of 'B' ordinary shares. This is effective from the earlier of:

- the date the ordinary shares are listed and traded on the LSE; and
- 1 July 2010.

All outstanding warrants may be redeemed at the option of the Company at any time after they become exercisable and prior to their expiration at a price of €0.01 per warrant provided that the last closing bid price of the ordinary shares is equal to or exceeds £19.50 on each of 20 consecutive trading days. The Company must give not less than 30 days' notice of the redemption date. Each warrant may then be exercised by the warrant holder (in whole or any part) at its option.

The holders are entitled to exercise their warrants for cash, assignment of an amount of outstanding principal/accrued interest of any Global Debt (i.e. any debt owed to the registered holder by any Group company) or on a cashless basis where the Company redeems the warrants. Any warrant either not exercised or tendered back to the Company by the redemption date shall be cancelled on the books of the Company and have no further value except for the €0.01 redemption price.

These Lenders' warrants are not traded in an active market and have therefore been valued using a Black-Scholes valuation model. The key assumptions used to ascertain a value as at 31 December 2009 are as follows:

- share price as at 31 December 2009 of €7.44;
- volatility of 30%;
- the warrants are not adjusted for dividends;
- the valuation incorporates the impact of the issuance of 4.0 million new ordinary shares in exchange for 21.8 million public warrants; and
- upside participation limited to 70%.

The value of the warrants at the year end was £2 million (2008: £nil).

Royal London warrants

On 2 September 2009, the Company issued 12.36 million warrants (2 million transferable and 10.36 million non-transferable) over its shares to Royal London as part consideration for acquiring the benefit of the £250 million of the PIK notes and facility outstanding (comprising principal and capitalised interest). These warrants entitle the holder to purchase one 'B' ordinary share at a price of €11 per share, subject to adjustment. Following the achievement of a premium listing of the ordinary shares on the LSE, the Royal London warrants will be over ordinary shares rather than 'B' ordinary shares.

The exercise period commences on the date of the warrant agreement and terminates on the first to occur of:

- 5^{th} anniversary of the date issued;
- date fixed for the redemption of the warrants; and
- liquidation of the Company.

The Company can issue a like number of ordinary shares instead of 'B' ordinary shares. This is effective from the earlier of:

- the date the ordinary shares are listed and traded on the LSE; and
- 1 July 2010.

All outstanding warrants may be redeemed at the option of the Company at any time after they become exercisable and prior to their expiration at a price of €0.01 per warrant provided that the last closing bid price of the ordinary shares is equal to or exceeds €16.50 on each of 20 consecutive trading days. The Company must give not less than 30 days' notice of the redemption date. Each warrant may then be exercised by the warrant holder (in whole or any part) at its option.

The holders are entitled to exercise their warrants for cash, assignment of an amount of outstanding principal plus accrued interest of any Global Debt (i.e. the PIK facility) or on a cashless basis where the Company redeems the warrants. Any warrant either not exercised or tendered back to the Company by the redemption date shall be cancelled on the books of the Company and have no further value except for the €0.01 redemption price.

The Royal London warrants are not traded in an active market and have therefore been valued using a Black-Scholes valuation model.

The key assumptions used to ascertain a value as at 31 December 2009 are as for the Lenders' warrants (see above). The value of the warrants at the year end was £6 million (2008: £nil).

25. Obligations for repayments of collateral received

	2009	2008
	£m	£m
Carrying value		
At 31 December	4,106	—
Amount due for settlement after 12 months	1,054	—

	2009	2008
	£m	£m
Fair value		
At 31 December	4,106	—

26. Financial liabilities

	2009	Restated 2008
	£m	£m
Carrying value		
Financial liabilities at fair value through profit or loss:		
Designated upon initial recognition	9,774	—
Held for trading – derivatives	2,842	11
Financial liabilities measured at amortised cost	8,460	—
	21,076	11
Amount due for settlement after 12 months	6,928	—

	2009	Restated 2008
	£m	£m
Fair value		
Financial liabilities at fair value through profit or loss:		
Designated upon initial recognition	9,774	—
Held for trading – derivatives	2,842	11
Financial liabilities measured at amortised cost	8,487	—
	21,103	11

27. Provisions

	Re-structuring	Leasehold properties	Staff related	Known incidents	Other	Total
	£m	£m	£m	£m	£m	£m
At 2 January 2008 and 1 January 2009	—	—	—	—	—	—
On acquisition of the Pearl businesses	13	38	22	18	30	121
Additions in the year	—	2	—	—	12	14
Utilised during the year	(5)	(2)	(3)	(4)	(10)	(24)
Released during the year	(1)	(1)	(3)	(6)	—	(11)
Effect of discounting and of changes in the discount rate	—	—	1	—	—	1
At 31 December 2009	7	37	17	8	32	101

The restructuring provision relates principally to the anticipated redundancy costs associated with the closure of the Group's Glasgow and Peterborough life operations, which is expected to occur in 2010 and 2011.

The leasehold properties provision has been made for amounts in respect of the excess of lease rentals and other payments on properties that are currently vacant or are expected to become vacant, over the amounts to be recovered from subletting these properties. The discount rate used ranged between 5.00% and 6.07% and it is expected that the provision will be utilised over the next 8 years.

Staff related provisions primarily relate to redundancy costs of staff that have been transferred under outsourcing contracts. This provision will be utilised over the next 2 years.

The known incidents provision was created for historical data quality, administration systems problems and process deficiencies on the policy administration, financial reconciliations and operational finance aspects of business outsourced.

Included in other provisions is £9 million in respect of investment contracts representing the excess of future costs over future charges on the Group's unit linked business, assessed at a product level. The discount rate used in calculating the provision is 4.00% and the provision is expected to run off over the remaining life of the business, estimated at 30 years. The remainder of the balance includes litigation and onerous contract provisions.

28. Tax assets and liabilities

	2009	2008
	£m	£m
Current tax receivables	44	—
Net deferred tax assets	81	—
Total tax assets	125	—
Current tax payables	103	—
Net deferred tax liabilities	776	—
Total tax liabilities	879	—

Deferred tax assets comprise:

	2009	2008
	£m	£m
Trading losses	28	—
Expenses and deferred acquisition costs carried forward	142	—
Provisions and other temporary differences	30	—
Pension scheme deficit	34	—
Accelerated capital allowances	24	—
Unpaid interest	45	—
Gross deferred tax assets	303	—
Less: offset against deferred tax liabilities	(222)	—
Net deferred tax assets	81	—

Deferred tax liabilities comprise:

	2009	2008
	£m	£m
Acquired in-force business	736	—
Unrealised gains on investments	7	—
Surplus within the non profit funds	96	—
Provisions and other temporary differences	19	—
Adjustment for insurance policies held with related parties in respect of the PGL Pension Scheme	17	—
Intangible assets	123	—
Gross deferred tax liabilities	998	—
Less: offset against deferred tax assets	(222)	—
Net deferred tax liabilities	776	—

Movements in deferred tax assets/(liabilities) comprise:

	2009	2008
	£m	£m
At 1 January 2009 (2 January 2008)	—	—
On acquisition of the Pearl businesses	(695)	—
Amounts credited to the income statement	31	—
Amounts charged to the statement of other comprehensive income	(31)	—
At 31 December	(695)	—

Deferred tax has been provided on the surpluses within the non profit funds on the assumption that all such surpluses will eventually be distributed to owners.

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

	2009	2008
	£m	£m
Deferred tax assets have not been recognised in respect of:		
Tax losses carried forward	141	—
Excess expenses and deferred acquisition costs carried forward	50	—
Provisions and other temporary differences	3	—
Deferred tax assets not recognised on capital losses	210	—

These can only be offset against future capital gains and have no expiry date.

29. Payables related to direct insurance contracts

	2009	2008
	£m	£m
Payables related to direct insurance contracts	759	—
Amount due for settlement after 12 months	66	—

General insurance

Due to the historic diversity of issued general insurance policies and taking into account the legal and regulatory environment for hazardous risks, it is possible that additional claims could emerge from long tail unexpired risks albeit it is not possible to predict the quantum, location or timing of such occurrences.

The estimation of the provisions for the ultimate cost of claims for asbestos and environmental pollution is subject to a range of uncertainties that is generally greater than those encountered for other classes of insurance business and as a consequence of this uncertainty the eventual costs of settlement of outstanding claims and unexpired risks can vary substantially from the estimates.

Pearl Assurance plc

Within Pearl Assurance plc (''Pearl'') the provision for the future claims payments has primarily been assessed in accordance with actuarial methods projecting the number and amount of claims separately. Where there is a notable exposure to long-term asbestos, pollution and health hazard liabilities, external independent actuaries provide best estimate benchmarks. An appropriate prudential margin is applied to certain lines of business as it is recognised that the estimation of certain future claims payments is an inherently uncertain exercise and future experience could be more adverse.

In calculating the provisions in respect of long-term UK Industrial disease business the future investment income on the assets held to cover the related provisions has been taken into account by discounting future cash flows. The average period before the undiscounted liability will be settled has been estimated at 14 years for 2009 and the provision has been discounted at 2.5% per annum.

The overall effect is to reduce the gross and net claims outstanding financial liability for those classes of business referred to above at 31 December 2009 by £9 million from £35 million to £26 million. The total amount of the investment return which corresponds to the unwinding of the discount is £0.6 million.

PA (GI) Limited

Within PA (GI) Limited the provision for outstanding general insurance claims comprises the estimated ultimate cost of settling claims notified but not settled by the period end. It includes related expenses and a deduction for the expected value of salvage and other recoveries. The provision is determined using the best information available of claims settlement patterns, forecast inflation and settlement of claims. The general insurance liabilities of PA (GI) Limited are wholly reinsured externally to RSA.

30. Accruals and deferred income

	2009	2008
	£m	£m
Accruals	177	9
Amount due for settlement after 12 months	4	—

31. Other payables

	2009	2008
	£m	£m
Investment broker balances	420	—
Other payables	230	—
	650	—
Amount due for settlement after 12 months	8	—

32. Pension schemes

The Group operates two staff Pension Schemes, the Pearl Group Staff Pension Scheme and the PGL Pension Scheme.

The carrying value of the defined benefit pension schemes is set out below:

	2009	2008
	£m	£m
Pearl Group Staff Pension Scheme deficit	(121)	—
PGL Pension Scheme – economic surplus	62	—
Adjustment for insurance policies held with related parties and eliminated on consolidation	(66)	—
PGL Pension Scheme – reported deficit	(4)	—
Total deficit	(125)	—

Information on each of these schemes is set out below. This principally relates to the period from 28 August 2009 to 31 December 2009.

32.1 Pearl Group Staff Pension Scheme

The Pearl Group Staff Pension Scheme ("the Pearl Scheme") comprises a final salary section, a money purchase section and a hybrid section (a mix of final salary and money purchase). The final salary and hybrid sections of the Pearl Scheme are closed to new members.

Defined contribution scheme

The Group participates in the defined contribution section of the Pearl Scheme. Contributions in the period 28 August to 31 December 2009 amounted to approximately £1 million.

Defined benefit scheme

The Pearl Scheme is funded by payment of contributions to a separately administered trust fund and is subject to regular valuations by an independent qualified actuary. A Group company, PGH2 is the principal employer of the Pearl Scheme.

Given the deficit in the Pearl Scheme, the principal employer and the Trustees of the Pearl Scheme entered into an agreement effective 2 September 2009, the principal terms of which provided for the following:

- a cash payment into the scheme of £50 million in October 2009 followed by cash payments of £25 million per annum for a period of 10 years, commencing on 30 September 2010, subject to certain capital resource and other requirements being maintained; and
- the Trustees being granted a first charge over shares in Pearl, NPLL, London Life Limited, Pearl Group Services Limited and PGS 2 Limited to secure an amount not exceeding 60% of the deficit arising on the triennial scheme valuation (as calculated in accordance with the terms of the agreement), subject to an initial amount and a maximum of £600 million, such security ceasing on a scheme buy out, the principal employer discharging its liabilities under the agreement or upon a valuation of the scheme demonstrating there is no funding deficit if earlier. Enforcement of the security may take place on the occurrence of various events, the key ones being (i) a failure by the principal employer to pay agreed cash contributions to the scheme, (ii) an insolvency or other financial difficulties of the principal employer, (iii) except in certain defined circumstances, payments of interest or principal to the principal employer's lenders or of dividends to the principal employer's owners being made at a time when the principal employer has failed to maintain an embedded value of at least 1.3 times the amount secured, (iv) the principal employer failing to maintain an embedded value of at least 1.05 times the amount secured or (v) the principal employer granting certain types of security over its assets. NP Life Holdings Limited has also granted a limited recourse share charge over the shares it holds in NPLL in favour of the Trustee in respect of the principal employer's obligation under this agreement. This security is granted on substantially the same terms as the security granted by the principal employer. The principal employer has also agreed to provide a share charge over NPI if NPI is not transferred within the Group by 14 April 2010.

In addition, the principal employer meets the administration expenses of the Pearl Scheme.

The valuation has been based on an assessment of the liabilities of the Pearl Scheme as at 31 December 2009, undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related current service costs have been measured using the projected unit credit method.

The principal financial assumptions of the Pearl Scheme are set out below:

	2009	**2008**
	%	%
Rate of general long-term increase in salaries	4.5	—
Rate of increase in pensions	3.5	—
Discount rate	5.7	—
Inflation	3.5	—
Expected rate of return on scheme assets	5.1	—

The discount rate and inflation rate assumptions used for the calculation of the liabilities have been determined by considering the shape of the appropriate yield curves and the duration of the Pearl Scheme liabilities. This method determines an equivalent single rate for both the discount and inflation rates, which is derived from the profile of projected benefit payments.

The expected rate of return on scheme assets is derived after considering historical returns and assuming that asset classes with higher volatility generate higher returns (consistent with widely accepted capital market principles). The overall expected return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation.

It has been assumed that post-retirement mortality is in line with standard tables PMA92C2009 for males and PFA92C2009 for females, based on year of use and including Medium Cohort projections for future mortality improvements. Under these assumptions, the average life expectancy from retirement for a member currently age 40 retiring at age 60 is 26.8 years and 29.8 years for male and female members respectively.

The amounts recognised in the income statement are as follows:

	2009	2008
	£m	£m
Current service cost	—	—
Interest cost	(32)	—
Expected return on scheme assets	27	—
	(5)	—

The net actuarial gains and losses recognised in other comprehensive income comprise the following:

	2009	2008
	£m	£m
Actual return less expected return on scheme assets	36	—
Experience gains arising on scheme liabilities	58	—
Loss due to changes in assumptions underlying scheme liabilities	(65)	—
	29	—

The cumulative net actuarial gains recognised in other comprehensive income since 28 August 2009 amounted to £29 million.

The amounts recognised in the statement of financial position are as follows:

	2009	2008
	£m	£m
Fair value of scheme assets	1,684	—
Present value of defined benefit obligation	(1,805)	—
Deficit	(121)	—

The actual return on the scheme assets comprises the following:

	2009	2008
	£m	£m
Expected return on scheme assets	27	—
Actuarial gains on scheme assets	36	—
	63	—

The change in the present value of the defined benefit obligation is as follows:

	2009	2008
	£m	£m
At 1 January 2009 (2 January 2008)	—	—
On acquisition of the Pearl businesses	1,791	—
Current service cost	—	—
Interest cost	32	—
Actuarial losses	7	—
Benefits paid	(25)	—
At 31 December	1,805	—

The defined benefit obligation arises from plans that are wholly or partly funded.

The change in the fair value of the scheme assets is as follows:

	2009	2008
	£m	£m
At 1 January 2009 (2 January 2008)	—	—
On acquisition of the Pearl businesses	1,583	—
Expected return on scheme assets	27	—
Actuarial gains on scheme assets	36	—
Contributions by the employer	63	—
Benefits paid	(25)	—
At 31 December	1,684	—

The distribution of the scheme assets at the end of the year was as follows:

	2009	2008
	£m	£m
Equities	318	—
Bonds	1,215	—
Properties	63	—
Cash	72	—
Other	16	—
	1,684	—

Contributions totalling £25 million are expected to be paid into the scheme in 2010 in accordance with the agreement with the Trustees of the Pearl Scheme.

Table of historical information from 2009

	2009
	£m
Fair value of scheme assets	1,684
Defined benefit obligation	(1,805)
Deficit	(121)
Experience gains on scheme assets	36
Experience gains on scheme liabilities	58

(b) PGL Pension Scheme

Defined contribution scheme

The Group participates in the defined contribution section of the PGL Pension Scheme (“the PGL Scheme”). Contributions in the period from 28 August 2009 to 31 December 2009 amounted to £1 million.

Defined benefit scheme

The defined benefit section of the PGL Scheme is a final salary arrangement which is generally closed to new entrants and, in respect of former members of the Phoenix Life Group pension scheme (which merged with the PGL Scheme in 2006) to future service accruals.

The valuation has been based on an assessment of the liabilities of the PGL Scheme as at 31 December 2009, undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related current service costs have been measured using the projected unit credit method.

The principal financial assumptions of the PGL Scheme are set out below:

	2009	2008
	%	%
Rate of general long-term increase in salaries	4.6	—
Rate of increase in pensions	3.5	—
Discount rate	5.7	—
Inflation	3.6	—
Expected rate of return on scheme assets	5.4	—

The discount rate and inflation assumptions used for the calculation of the liabilities have been determined by considering the shape of the appropriate yield curves and the duration of the PGL Scheme liabilities. This method determines an equivalent single rate for both the discount and inflation rates, which is derived from the profile of projected benefit payments.

The expected rate of return on scheme assets is derived after considering historical returns and assuming that asset classes with higher volatility generate higher returns (consistent with widely accepted capital market principles). The overall expected return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation.

It has been assumed that post retirement mortality is in line with standard tables PNA00 with a scaling factor of 105% being applied, allowing for future improvements in line with the long cohort improvement factors, subject to a minimum improvement from 2007 onwards of 1.25% p.a. and 0.75% p.a. for males and females respectively. Under these assumptions, the average life expectancy from retirement for a member currently age 40 retiring at age 57 is 33.9 years and 35.0 years for male and female members respectively. The average life expectancy from retirement for a member currently aged 50 retiring at age 57 is 32.5 years and 34.2 years for male and female members respectively.

The economic value of the PGL Scheme assets as at 31 December 2009 amounted to £1,192 million and the economic value of the surplus amounted to £62 million. For financial reporting purposes the carrying value of the insurance policies effected by the PGL Scheme with the Group amounting to £66 million have been eliminated on consolidation, resulting in reported assets of the PGL Scheme as at 31 December 2009 of £1,126 million and a reported deficit of £4 million.

The amounts recognised in the income statement are as follows:

	2009	2008
	£m	£m
Current service cost	(2)	—
Interest cost	(21)	—
Expected return on scheme assets	17	—
	(6)	—

The net actuarial gains and losses recognised in other comprehensive income comprise the following:

	2009	2008
	£m	£m
Actual return less expected return on scheme assets	23	—
Experience gain arising on scheme liabilities	18	—
Gain due to changes in assumptions underlying scheme liabilities	35	—
Actuarial gain	76	—

The cumulative net actuarial gains recognised in other comprehensive income since 28 August 2009 amounted to £76 million.

	2009	2008
	£m	£m
Fair value of scheme assets	1,126	—
Present value of defined benefit obligation	(1,130)	—
Deficit	(4)	—

The actual return on the scheme assets comprises the following:

	2009	2008
	£m	£m
Expected return on scheme assets	17	—
Actuarial gains on scheme assets	23	—
	40	—

The change in the present value of the defined benefit obligation is as follows:

	2009	2008
	£m	£m
At 1 January 2009 (2 January 2008)	—	—
On acquisition of the Pearl businesses	1,176	—
Current service cost	2	—
Interest cost	21	—
Actuarial gains	(53)	—
Benefits paid	(16)	—
At 31 December	1,130	—

The defined benefit obligation arises from plans that are wholly or partly funded.

The change in the fair value of the scheme assets is as follows:

	2009	2008
	£m	£m
At 1 January 2009 (2 January 2008)	—	—
On acquisition of the Pearl businesses	1,096	—
Expected return on scheme assets	17	—
Actuarial gain on scheme assets	23	—
Contributions by the employer	6	—
Benefits paid	(16)	—
At 31 December	1,126	—

The distribution of the scheme assets at the end of the year was as follows:

	2009	2008
	£m	£m
Bonds	995	—
Properties	110	—
Cash and other	21	—
	1,126	—

Contributions totalling £15 million are expected to be paid into the scheme in 2010.

Table of historical information from 2009:

	2009
	£m
Fair value of scheme assets	1,126
Defined benefit obligation	(1,130)
Deficit	(4)
Experience gains on scheme assets	23
Experience gains on scheme liabilities	18

33. Intangible assets

	Goodwill	Acquired in-force business	Customer relation-ships	Present value of future profits	Total
	£m	£m	£m	£m	£m
Cost or valuation					
At 2 January 2008 and 1 January 2009	—	—	—	—	—
On acquisition of the Pearl businesses	77	2,213	445	31	2,766
Revaluation	—	—	—	4	4
At 31 December 2009	77	2,213	445	35	2,770
Amortisation					
At 2 January 2008 and 1 January 2009	—	—	—	—	—
Amortisation charge for the year	—	50	7	—	57
At 31 December 2009	—	50	7	—	57
Carrying amount					
At 31 December 2009	77	2,163	438	35	2,713
Amount recoverable after 12 months	77	1,992	420	35	2,524

Goodwill

Goodwill of £77 million was created upon the acquisition of the Pearl businesses and is not amortised. The carrying value of goodwill has been tested for impairment at the period end. No impairment has resulted as the value in use of this intangible continues to exceed its carrying value. Value in use has been determined as the present value of certain future cash flows associated with the Ignis Asset Management business and the management services business of the Phoenix Life segment. The cash flows used in this calculation are consistent with those adopted by management in the Group's operating plan and for the period 2014 and beyond, reflect the anticipated run-off of the Phoenix Life insurance business. Future cash flows have been valued using a discount rate of 10.0%.

The carrying amount of goodwill allocated to the Phoenix Life segment is £39 million and to the Ignis Asset Management segment is £38 million.

Acquired in-force business

Acquired in-force business of £2,213 million was recognised upon the acquisition of the Pearl businesses and represents the difference between the fair value of the contractual rights acquired and obligations assumed under insurance and investment contracts with and without DPF and the liability measured in accordance with the Group's accounting policies for such contracts.

The acquired in-force business is allocated to the Phoenix Life segment.

Customer relationships

The customer relationships intangible includes an intangible representing vesting pension premiums which captures the new business arising from policies in force at the acquisition date, specifically top-ups made to existing policies and annuities vested from matured pension policies. The total value of this customer relationships intangible at acquisition was £297 million and has been allocated to the Phoenix Life segment. This intangible is being amortised over a 20 year period.

The second part of the customer relationships intangible relates to the Investment Management Contracts ("IMCs") held within Ignis Asset Management. These are further split into IMCs held with open ended funds and institutional mandates. The open ended IMCs had a value at acquisition of £130 million and an indefinite useful economic life ("UEL"). The reason for the indefinite UEL is that funds are open ended and indefinite in nature. An impairment review has been completed for these intangibles at the period end with an indefinite life and no impairment has arisen. Under this impairment review, value in use has been determined as the present value of future cash flows associated with the open-ended IMCs. The cash flows used in this calculation are consistent with those adopted by management in the Group's operating plan with a declining growth rate assumed for the extended forecast period beyond the period of this plan and a terminal value applied at the year where growth stabilises to 2% per annum. Future cash flows have been valued using a discount rate of 11.4%. The institutional mandate IMCs had a value at acquisition of £18 million and a UEL of between 5 and 7 years. These IMC customer relationships intangibles have been allocated to the Ignis Asset Management segment.

The amortisation in relation to these customer relationship intangibles is presented separately on the consolidated income statement.

PVFP on non participating business in the with profit fund

The value of the PVFP is determined in accordance with the FSA's realistic capital regime and is allocated in full to the Phoenix Life segment. The principal assumptions used to calculate the PVFP are the same as those used in calculating the insurance contract liabilities given in note 42.5.1.

During the year £4 million of PVFP was credited directly to the consolidated income statement.

34. Property, plant and equipment

	£m
Cost or valuation	
At 2 January 2008 and 1 January 2009	—
On acquisition of the Pearl businesses	35
Additions	1
At 31 December 2009	36
Depreciation	
At 2 January 2008 and 1 January 2009	—
Charge for the year	(2)
At 31 December 2009	(2)
Carrying amount	
At 31 December 2009	34

The useful lives of plant and equipment have been taken as follows: motor vehicles 3 to 4 years, computer equipment 3 to 4 years, furniture and office equipment 5 to 10 years.

The valuation of land and buildings is carried out at least every three years as at 31 December by external surveyors in accordance with the Royal Institution of Chartered Surveyors' requirements under an open market valuation basis. The latest valuation was undertaken on 31 December 2009.

35. Investment property

	£m
At 2 January 2008 and 1 January 2009	—
On acquisition of the Pearl businesses	1,807
Additions	189
Improvements	5
Disposals	(245)
Gains on adjustments to fair value	159
At 31 December 2009	1,915

Investment property is stated at fair value and is independently valued in accordance with the Royal Institute of Chartered Surveyors' guidelines on the basis of the open market value of such properties.

Investment properties include £252 million property reversions arising from sales of the NPI Extra Income Plan. The reversionary interest is valued as the NPI and NPLL proportion of the current market value, projected for the lifetime of the policyholder at the assumed future increase in house prices, then discounted back by the valuation rate of interest.

Direct operating expenses (included within administrative expenses) in respect of investment properties that generated rental income during the year amounted to £8 million. The direct operating expenses arising from investment property that did not generate rental income during the year amounted to £3 million.

36. Financial assets and financial instrument fair value hierarchy

	2009	2008
	£m	£m
Loans and receivables at amortised cost	1,081	—
Financial assets at fair value through profit or loss		
Held for trading – derivatives	3,540	—
Designated upon initial recognition		
Equities	13,151	—
Fixed and variable rate income securities	37,658	—
Collective investment schemes	6,094	—
	61,524	—
Amount recoverable after 12 months	39,822	—

The fair value of loan and receivables at amortised cost amounted to £1,074 million (2008: £nil).

Determination of fair value and fair value hierarchy of financial instruments

Level 1 financial instruments

The fair value of financial instruments traded in active markets (such as publicly traded securities and derivatives) is based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. If the bid price is unavailable a 'last traded' approach is adopted. For units in unit trusts and shares in open ended investment companies, fair value is by reference to published bid values.

Level 2 financial instruments

The fair values of investments that are not traded in an active market are determined using valuation techniques with observable market inputs. The fair value of shares and other variable yield securities and of derivative financial instruments, are estimated using pricing models, discounted cash flow techniques or broker quotes. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument.

Level 3 financial instruments

The Group's financial assets determined by valuation techniques using non observable inputs are based on a combination of independent third party evidence and internally developed models. Third party evidence in the form of net asset valuation statements, are used in the valuation of the majority of indirect property, private equity and hedge funds. Broker quotes are received for certain bonds where the market is considered to be inactive. Internally developed models have been used in the valuation of a small number of investment vehicles which due to their nature and complexity have no external market. Inputs into the internally developed models are based on market observable data where available.

Fair value hierarchy of financial instruments measured at fair value

At 31 December 2009

	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
Financial assets at fair value				
Derivatives	1,312	2,228	—	3,540
Financial assets designated at fair value through profit or loss upon initial recognition				
Equities	11,012	645	1,494	13,151
Fixed and variable rate income securities	33,672	3,167	819	37,658
Collective investment schemes	5,859	—	235	6,094
	50,543	3,812	2,548	56,903
Total financial assets at fair value	51,855	6,040	2,548	60,443

At 31 December 2009

	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
Financial liabilities at fair value				
Derivatives	1,297	1,545	—	2,842
Financial liabilities designated at fair value through profit or loss upon initial recognition				
Investment contract liabilities	—	8,570	—	8,570
Borrowings	—	258	—	258
Net asset value attributable to unit holders	792	—	154	946
	792	8,828	154	9,774
Total financial liabilities at fair value	2,089	10,373	154	12,616

Level 3 financial instrument sensitivities

Included in Level 3 investments are two property investment structures with a value of £106 million and £110 million respectively.

The first of these investments has been independently valued using a multi scenario discounted cash flow model. Under the optimistic scenario, the fair value of the investment would increase by £18 million and in the worst case scenario the fair value would decrease by £8 million.

The second investment, has been valued by taking the fair value of the property within the structure, which has been independently valued, less the fair value of the debt within the structure. The valuation is sensitive to movements in yields on the underlying property portfolio. An increase in yields of 25bps would reduce the value of the investment by £19 million and a reduction in yields of 25bps would increase the value by £21 million.

Level 3 investments in indirect property, private equity and hedge funds are valued using net asset statements provided by independent third parties and therefore no sensitivity analysis has been prepared.

Debt securities categorised as Level 3 investments are valued using broker quotes. Although such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

Significant transfers of financial instruments between Level 1 and Level 2

At 31 December 2009

	From Level 1 to Level 2	From Level 2 to Level 1
	£m	**£m**
Financial assets at fair value		
Derivatives	—	—
Financial assets designated at fair value through profit or loss upon initial recognition		
Equities	—	—
Fixed and variable rate income securities	226	334
Collective investment schemes	—	—
	226	334
Financial liabilities at fair value		
Derivatives	9	—
Financial liabilities designated at fair value through profit or loss upon initial recognition		
Investment contract liabilities	—	—
Borrowings	—	—
Net asset value attributable to unit holders	—	—
	9	—

2009 saw an improvement in the liquidity of the fixed and variable rate securities market which has resulted in a number of securities moving from Level 2 into Level 1. There were however, a number of securities that moved from Level 1 to 2 as a result of a downgrading in their credit rating. These securities were mainly in the financial sector with issuers such as banks and insurance companies.

Movement in Level 3 financial instruments measured at fair value

	At 1 Jan 2009	Arising on acquisition of the Pearl businesses	Total gains/ (losses) in income statement	Purchases and sales	Transfers from Level 1 and Level 2	At 31 Dec 2009	Unrealised gains/ (losses) on assets held at end of year
	£m	£m	£m	£m	£m	£m	£m
Financial assets designated at fair value through profit or loss upon initial recognition							
Equities	—	1,513	2	(25)	4	1,494	29
Fixed and variable rate income securities	—	839	(18)	80	(82)	819	(18)
Collective investment schemes	—	259	40	(64)	—	235	37
	—	2,611	24	(9)	(78)	2,548	48

	At 1 Jan 2009	Arising on acquisition of the Pearl businesses	Total gains in income statement	Purchases and sales	Transfers from Level 1 and Level 2	At 31 Dec 2009	Unrealised gains on liabilities held at end of year
	£m	£m	£m	£m	£m	£m	£m
Financial liabilities designated at fair value through profit or loss upon initial recognition							
Net asset value attributable to unit holders	—	170	8	(24)	—	154	29

Gains and losses on Level 3 financial instruments are included in net investment income in the consolidated income statement. There were no gains or losses recognised in other comprehensive income.

37. Stock lending

The Group lends listed financial assets held in its investment portfolio to other institutions. The Group conducts its stock lending programme only with well-established, reputable institutions in accordance with established market conventions.

The financial assets do not qualify for derecognition as the Group retains all the risks and rewards of the transferred assets except for the voting rights. The carrying value of listed financial assets lent at 31 December 2009 that have not been derecognised amounted to £8,612 million (2008: £nil).

It is the Group's practice to obtain collateral in stock lending transactions, usually in the form of cash or marketable securities. Certain cash collateral is available to the Group for investment purposes and is therefore recognised as a financial asset and a financial liability. The amount recognised as a financial asset and a financial liability at 31 December 2009 is £2,780 million (2008: £nil) and £3,007 million (2008: £nil) respectively. Other collateral is held on behalf of the Group and is not recognised in the statement of consolidated financial position as the Group is not permitted to sell or re-pledge the collateral in the absence of default.

The reinvested assets are primarily AAA listed securities and cash and the Group also has other readily realisable financial assets which are available to settle the collateral liabilities if required.

38. Other receivables

	2009	2008
	£m	£m
Unsettled trades	550	—
Other debtors	231	—
	781	—
Amount recoverable after 12 months	—	—

39. Cash and cash equivalents

	2009	2008
	£m	£m
Bank and cash balances	2,223	2
Short-term deposits (including demand and time deposits)	3,858	—
	6,081	2

All deposits are subject to fixed interest rates. The carrying amounts approximate to fair value at the period end. Cash and cash equivalents in long-term business operations and collective investment schemes of £5,551 million (2008: £nil) are primarily held for the benefit of policyholders and so are generally not available for use by the owners.

40. Cash flows

40.1 Cash flows from operating activities

	2009	Restated Period ended 31 December 2008
	£m	£m
Profit for the year before tax	91	31
Non-cash movements in profit for the year before tax		
Fair value (gains)/losses on:		
Investment property	(159)	—
Financial assets	354	—
Unrealised (losses)/gains on:		
Financial liabilities	—	(17)
Borrowings	32	—
Depreciation of property, plant and equipment	2	—
Amortisation of intangible assets	57	—
Change in present value of future profit	(4)	—
Change in unallocated surplus	175	—
Change in deposits received from reinsurers	(25)	—
Interest income on trust account	(2)	(16)
Share-based payment charge	5	2
Interest expense on borrowings	87	—
Net expected return on pension assets	9	—
Foreign currency exchange gains	(1)	—
Decrease in investment assets	487	—
Increase in reinsurance assets	(160)	—
Decrease in insurance contract and investment contract liabilities	(951)	—
Net increase in working capital	(354)	—
Cash absorbed by operations	(357)	—

40.2 Cash flows on acquisition of the Pearl businesses

	2009	Period ended 31 December 2008
	£m	£m
Consideration settled in cash	—	—
Acquisition expenses	9	—
	9	—
Cash and cash equivalents of the Pearl businesses	(6,155)	—
	(6,146)	—

40.3 Trust account

The trust account was held at Goldman Sachs, International, London branch and consisted of the net proceeds of the IPO, the proceeds of the sale of the Founders' units sold to the Founders prior to the consummation of the IPO, the proceeds of the sale of the Sponsors' warrants and £9 million of the underwriting fee that the underwriters had agreed to defer until the consummation of a business combination. Release of this amount was not at the discretion of the Company. The amounts held in the trust account were only to be released to the Company upon the consummation of a business combination, as set forth in the offering circular dated 25 January 2008 and the supplement thereto dated 5 February 2008. The trust account was under supervision of the Trustee under the trust agreement. Following the acquisition of the Pearl businesses, £45 million was returned from the Trust Account to subscribers for IPO shares who did not vote in favour of the business combination comprising £41 million share premium and £4 million accrued interest. The remainder of the trust account was transferred to the Company.

41. Capital statement

Capital Management Framework

The Group's Capital Management Framework is designed to achieve the following objectives:

- provide appropriate security for policyholders and meet all regulatory capital requirements whilst not retaining unnecessary excess capital;
- ensure sufficient liquidity to meet obligations to policyholders and other creditors; and
- meet the dividend expectations of owners as set by the Group's dividend policy.

The framework comprises a suite of capital management policies that govern the allocation of capital throughout the Group to achieve the framework objectives under a range of stress conditions. The policy suite is defined with reference to policyholder security, creditor obligations, owner dividend policy and regulatory capital requirements.

The capital policy of each Group holding company is set by the Board of Phoenix Group Holdings and monitored each month at both the executive and Board level. The policies ensure sufficient liquidity to meet creditor and dividend obligations through the combination of cash buffers and cash flows from the Group's operating companies. Volatility in the latter is monitored at the executive and Board level through stress and scenario testing. Where cash flow volatility is judged to be in excess of the Board's risk appetite, de-risking activities are undertaken.

The capital policy of each life company is set by each life company Board and monitored on a daily basis. These policies ensure there is sufficient capital within each life company to meet regulatory capital requirements under a range of stress conditions. The capital policy of each life company varies according to the risk profile and financial strength of the company.

Regulatory capital requirements

Each UK life company must retain sufficient capital at all times to meet the regulatory capital requirements mandated by the FSA. In addition to EU-directive-based 'Pillar 1' and group capital requirements, the FSA has also stipulated a 'Pillar 2' of risk-based capital requirements that have been implemented in the UK. A life company's actual capital requirement is based on whichever of the Pillar 1 or Pillar 2 requirement turns out to be more onerous for the company.

Each life company generally holds an amount of capital that is greater than the minimum required amount to allow for adverse events in the future that may use capital and might otherwise cause the company to fail the minimum level of regulatory capital test.

Pillar 1

With the exception of with profit businesses, the regulatory capital requirement under Pillar 1 is the total amount held in respect of investment, expense and insurance risks (the 'long-term insurance capital requirement' ("LTICR")) and any additional amounts required to cover the more onerous of two specified stress tests (the 'resilience capital requirement' ("RCR")). The regulatory capital requirement is then deducted from the available capital resources to give the excess capital on a regulatory basis.

A further test is required under Pillar 1 in respect of with profit funds which may result in an additional capital requirement referred to as the 'with profit insurance capital component' ("WPICC").

Pillar 2

The Pillar 2 capital requirements are based on a self-assessment methodology, the so called Individual Capital Assessment ("ICA"). This methodology determines the capital requirement to ensure that the life company's realistic liabilities can be met in one year's time with a 99.5% confidence level, or in other words to be able to withstand a one in 200 year event. The FSA reviews each life company's ICA and may impose additional capital requirements if necessary in the form of Individual Capital Guidance ("ICG").

Insurance Groups' Directive ("IGD")

FSA regulated insurance groups (including their holding companies) are also required to provide an assessment of capital adequacy on a Group-wide basis to enable the FSA to assess both the level of insurance and financial risk within the Group and the capital resources available to cover that risk. The assessment is known as the IGD and is the Group's primary capital and solvency measure.

The Group's IGD assessment is made at the highest EEA level insurance Group holding company, which is PLHL. PLHL is a subsidiary of the Company.

Regulatory capital position statement

The purpose of the capital position statement is to set out the capital resources of the Phoenix Life segment of the Group and to provide an analysis of the disposition and constraints over the availability of capital to meet risks and regulatory requirements. The capital position statement also provides a reconciliation of owners' funds to regulatory capital and an analysis of the regulatory capital between the Group's with profit funds, non participating business, life business owners' funds and its other activities.

The Groups acquired its life assurance business upon the purchase of the Pearl businesses, information on which is given in note 3. The Group's material with profit funds at 31 December 2009 are shown separately in the capital position statement and the less material with profit funds are aggregated and shown as 'Other'. The with profit funds shown separately are the Phoenix with profit fund ("PLL PWP"), the Britannic with profit fund ("PLL BWP"), the SMA with profit fund ("SMA WPF"), the Scottish Provident with profit fund ("SPL WPF") and the Pearl Assurance with profit fund ("Pearl WPF"). The with profit funds of London Life Limited and Phoenix & London Assurance Limited ("PALAL") are aggregated within the 'Other' column.

The contributions made by Phoenix Pensions Limited ("PPL") and NPLL to the Group's capital resources are included in the column headed 'Phoenix Life owners' funds', since they are owned by the Group's life business owners' funds. An allocation of capital and loans from the Phoenix Life owners' funds to the Group's non participating business is made in respect of PPL and to the Pearl WPF in respect of NPLL representing capital resources to cover the capital resources requirement of the PPL and NPLL long-term funds respectively. The non participating business and other activities are shown in aggregate in the capital position statement. Virtually all activities of the Group relate to UK business.

The Group has a number of internal loan arrangements in place, which allow the Group to provide capital support to other areas of the business. In addition to these internal loan arrangements, the Group has in place a number of internal reinsurance contracts which are structured to manage the capital position between certain life funds.

The available capital resources in each part of the business are generally subject to restrictions as to their availability to meet requirements that may arise elsewhere in the Group. The principal restrictions are:

With profits funds – any available surplus held in each fund can only be used to meet the requirements of the fund itself or be distributed to policyholders and owners. In 90:10 with profit funds, policyholders are entitled to at least 90% of the distributed profits while owners receive the balance. In 100:0 with profit funds, policyholders are entitled to 100% of the distributed profits. Any distribution to the owners would be subject to a tax charge which, for some funds, would be deducted from the amount received by owners.

Non participating funds – any available surplus held in these funds is attributable to owners. Capital within the non participating funds may be made available to meet capital requirements elsewhere in the Group subject to meeting regulatory and legal requirements, and after consideration of the internal capital requirements of the relevant fund and company. Any transfer of surplus may give rise to a tax charge subject to availability of tax relief elsewhere in the Group.

Pearl Pacific fund – the owner attributed assets, known as the Pacific fund, are held within the surplus of the 0:100 fund of Pearl and are attributable to owners. The assets can only be released when, in the opinion of the Actuarial Function Holder and the Board, to do so would not adversely affect either the reasonable expectations of with profit policyholders or the security of non profit policyholders.

The capital statement and movement analysis that follows presents information about the capital resources for the Group's UK life businesses.

2009

	With profit (see below)	Non participating	Phoenix Life owners' funds	Total Phoenix Life business	Other activities and consolidation adjustments[4]	Group total
	£m	£m	£m	£m	£m	£m
Owners' funds held outside long-term fund	—	—	2,475	2,475	(1,955)	520
Owners' funds held in long-term fund	—	902	(10)	892	—	892
Total owners' funds at 31 December 2009	—	902	2,465	3,367	(1,955)	1,412
Adjustments onto a regulatory basis						
Unallocated surplus	710	—	11	721		
Adjustments to assets[1]	(64)	(298)	(810)	(1,172)		
Adjustments to liabilities[2]	3,237	(87)	40	3,190		
Valuation difference between IFRS basis and regulatory basis	—	91	(8)	83		
Other qualifying capital:						
Subordinated debt[3]	83	—	637	720		
Contingent loans	382	(228)	(88)	66		
Allocation of group capital	122	206	(328)	—		
Total available capital resources at 31 December 2009	4,470	586	1,919	6,975		

1 Regulatory adjustments to assets reflect adjustments to derecognise inadmissible assets such as intangibles and deferred tax assets as well as those adjustments that are necessary where asset and counterparty exposures exceed the prescribed regulatory limits.

2 Regulatory adjustments to liabilities reflect the different valuation basis for insurance liabilities on a regulatory basis.

3 Of the £720 million subordinated debt attributed to the Phoenix Life segment of the Group £520 million is internal to the Group, comprising £250 million provided to Pearl and £270 million provided to PALAL. The remaining £200 million is external subordinated debt issued by PLL.

4 'Other activities and consolidation adjustments' represent the contribution to consolidated owners' funds arising outside of the Phoenix Life business. This includes the owners' funds of Ignis Asset Management and the holding companies of the Group but primarily consists of the consolidation adjustments to eliminate the cost of the Group's investment in the Phoenix Life businesses.

With profits

2009

	Pearl WPF	PLL PWP	PLL BWP	SMA WPF	SPL WPF	Other	Total
	£m	£m	£m	£m	£m	£m	£m
Owners' funds held outside long-term fund	—	—	—	—	—	—	—
Owners' funds held in long-term fund	—	—	—	—	—	—	—
Total owners' funds at 31 December 2009	—	—	—	—	—	—	—
Adjustments onto a regulatory basis:							
Unallocated surplus	209	128	254	29	55	35	710
Adjustments to assets	(34)	(3)	(11)	—	1	(17)	(64)
Adjustments to liabilities	604	802	560	265	587	419	3,237
Other qualifying capital:							
Subordinated debt	83	—	—	—	—	—	83
Contingent loans	—	—	—	—	—	382	382
Allocation of Group capital	122	—	—	—	—	—	122
Total available capital resources at 31 December 2009	984	927	803	294	643	819	4,470

An analysis of the movement in available capital resources for the period 1 January 2009 to 31 December 2009 is shown below:

	With profits								
	Pearl WPF	PLL PWP	PLL BWP	SMA WPF	SPL WPF	Other	Non partici-pating	Phoenix Life owners' funds	Total Phoenix Life business
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total available capital resources at 1 January 2009	—	—	—	—	—	—	—	—	—
On acquisition of the Pearl businesses	850	738	634	357	619	427	659	1,902	6,186
Regular surplus	111	27	17	48	(2)	20	101	—	322
Investment return	60	224	230	82	203	248	(17)	100	1,130
Cost of bonus	(27)	(47)	(33)	(16)	(26)	(13)	—	15	(147)
Changes in methodology and assumptions									
Longevity	1	26	1	18	15	32	(4)	—	89
Expenses	—	(6)	—	(9)	14	(18)	13	—	(6)
Other	1	(13)	(2)	—	—	(7)	21	—	—
Management actions									
Investment strategy	—	—	—	—	—	276	—	—	276
Proceeds from issue of subordinated debt	—	—	—	—	—	—	—	250	250
Dividends paid by Phoenix Life	—	—	—	—	—	—	—	(406)	(406)
New business and other factors									
Intragroup capital movement	—	—	—	—	—	(6)	(241)	216	(31)
Valuation rate of interest	—	(72)	(7)	(126)	(160)	(142)	(2)	—	(509)
Adjustment for internal loans in excess of counterparty limits	—	—	—	—	—	—	—	(37)	(37)
Other	(12)	50	(37)	(60)	(20)	2	56	(121)	(142)
Total available capital resources at 31 December 2009	984	927	803	294	643	819	586	1,919	6,975

Changes in methodology and assumptions

Changes to capital resources arising from changes in methodology and assumptions occur in the normal course of the assumption setting process and reflect changes in available data inputs.

Management actions

The management actions that have had the most significant impact on available capital resources of the Phoenix Life segment of the Group during the period to 31 December 2009 generally comprise financing activities, both to strengthen the Phoenix Life segment in the form of subordinated debt, and to pay dividends to finance corporate activities. In respect of investment strategy, the improvement in capital resources has arisen from an initiative to restructure the with profit fund of PALAL to improve the outlook for policyholders of that fund.

42. Risk management

The Group is exposed to a number of risks in its business including those arising from underlying assets and liabilities. The Group's overall approach to risk management is described in the Performance section of the Annual Report & Accounts.

42.1 Risk and capital management objectives

The risk management objectives and policies of the Group are based on the requirement to protect the Group's regulatory capital position, thereby safeguarding policyholders' guaranteed benefits whilst also ensuring the Group can meet various cash flow requirements. Subject to this, the Group seeks to use available capital to achieve increased investment returns, balancing risk and reward, to generate additional value for policyholders and shareholders.

In pursuing these objectives, the Group deploys financial assets and incurs financial liabilities. Financial assets principally comprise investments in equity securities, fixed and variable rate income securities, collective investment schemes, property, derivatives, reinsurance, trade and other receivables, and banking deposits. Financial liabilities comprise investment contracts, borrowings for financing purposes, derivative liabilities and other payables.

42.2 Asset liability management ("ALM") framework

The use of financial instruments naturally exposes the Group to the risks associated with them, chiefly, market risk, credit risk and liquidity risk.

Responsibility for agreeing the financial risk profile rests with the Board of each life company, as advised by investment managers, internal committees and the actuarial function. In setting the risk profile, the Board of each life company will receive advice from the appointed investment managers and the relevant actuary as to the potential implications of that risk profile with regard to the probability of both realistic insolvency and of failing to meet the regulatory minimum capital requirement. The actuary will also advise the extent to which the investment risk taken is consistent with the Group's commitment to treat customers fairly.

Derivatives are used in a number of the Group's funds, within policy guidelines agreed by the Board of each life company and overseen by Investment Committees of the Boards of each life company supported by management oversight committees. Derivatives are primarily used for efficient portfolio management or for risk hedging purposes.

More detail on the Group's exposure to financial risk is provided in note 42.3 below.

The Group is also exposed to insurance risk arising from its Phoenix Life segment. Life assurance risk in the Group arises through its exposure to mortality, longevity and to variances between assumed and actual experience in factors such as persistency levels and management and administrative expenses. More details on the Group's exposure to insurance risk is provided in note 42.5 below.

The Group's overall exposure to investment risk is monitored by appropriate committees, which agree policies for managing each type of risk on an ongoing basis, essentially within the ALM framework that has been developed to achieve investment returns in excess of amounts due in respect of insurance contracts. The effectiveness of the Group's ALM relies on close matching of assets and liabilities arising from insurance and investment contracts, taking into account the types of benefits payable to policyholders under each type of contract. Separate portfolios of assets are maintained for with profit business, which includes all of the Group's participating business, non linked non participating business and unit linked business.

42.3 Financial risk analysis

Transactions in financial instruments may result in the Group assuming financial risks. This includes credit risk, market risk and liquidity risk. Each of these are described below, together with a summary of how the Group manages them.

42.3.1 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. These obligations can relate to both on and off balance sheet assets and liabilities.

There are two principal sources of credit risk for the Group:

- credit risk which results from direct investment activities, including investments in fixed interest securities, equities, derivatives, collective investment vehicles, hedge funds and the placing of cash deposits; and
- credit risk which results indirectly from activities undertaken in the normal course of business. Such activities include premium payments, outsourcing contracts, reinsurance, exposure from material suppliers and the lending of securities.

The amount disclosed in the statement of consolidated financial position in respect of all financial assets, together with rights secured under off-balance sheet collateral arrangements, and excluding those that back unit linked liabilities, represents the Group's maximum exposure to credit risk.

Credit risk is managed by the monitoring of aggregate Group exposures to individual counterparties and by appropriate credit risk diversification. The Group manages the level of credit risk it accepts through divisional credit risk tolerances. In certain cases, protection against exposure to particular credit risk types may be achieved through use of derivatives. The credit risk borne by the shareholder on with profit policies is usually minimal unless the insurance fund is relying on shareholder support.

Quality of credit assets

An indication of the Group's exposure to credit risk is the quality of the investments and counterparties with which it transacts. The following table provides information regarding the aggregate credit exposure with external credit ratings:

2009

	AAA	AA	A	BBB	BB	B and below	Non rated	Unit linked	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans and receivables	—	—	—	—	—	1,027	46	8	1,081
Derivatives	—	73	3,368	—	—	—	50	49	3,540
Fixed and variable rate income securities	23,690	3,873	5,343	2,474	514	400	843	521	37,658
Reinsurers' share of insurance contract liabilities	13	595	2,124	20	—	—	98	10	2,860
Cash and cash equivalents	2,141	2,442	1,003	6	—	—	92	397	6,081

2008

	AAA	AA	A	BBB	BB	B and below	Non rated	Unit linked	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cash and cash equivalents	2	—	—	—	—	—	—	—	2
Amounts in trust	—	—	591	—	—	—	—	—	591

Credit ratings have not been disclosed in the above tables for equities. Whilst the Group is exposed to the impact of credit default on its equity holdings, this risk is not considered significant due to the spread of holdings. Non-equity based derivatives are included in the credit risk table above.

Credit ratings have also not been disclosed in the above tables for holdings in collective investment schemes. The risk of loss to the Group due to credit default on its holdings in collective investment schemes is considered low due to the tradeable nature of these investments.

It is also the Group's policy to maintain accurate and consistent internal risk ratings across its asset portfolio. This enables management to focus on the applicable risks and to compare credit exposures across all lines of business, geographical regions and products. The rating system is supported by a variety of financial analytics combined with market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories of assets and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

A further indicator of the quality of the Group's financial assets is the extent to which they are neither past due nor impaired. The following table gives information regarding the ageing of financial assets that are past due but not impaired and the carrying value of financial assets that have been impaired.

2009

	Neither past due nor impaired	Less than 30 days	30-90 days	Greater than 90 days	Impaired	Unit linked	Carrying value
	£m	£m	£m	£m	£m	£m	£m
Loans and receivables	1,073	—	—	—	—	8	1,081
Derivatives	3,491	—	—	—	—	49	3,540
Fixed and variable rate income securities	37,137	—	—	—	—	521	37,658
Reinsurers' share of insurance contract liabilities	2,850	—	—	—	—	10	2,860
Reinsurance receivables	264	—	—	—	—	—	264
Prepayments and accrued income	518	84	—	1	—	19	622
Other receivables	765	6	1	6	3	—	781
Cash and cash equivalents	5,684	—	—	—	—	397	6,081

2009

	Neither past due nor impaired	Less than 30 days	30-90 days	Greater than 90 days	Impaired	Unit linked	Carrying value
	£m	£m	£m	£m	£m	£m	£m
Cash and cash equivalents	2	—	—	—	—	—	2
Amounts in trust	591	—	—	—	—	—	591

Assets backing unit linked business have not been analysed in these tables as the credit risk on such financial assets is borne by the policyholders. However, these assets have been included as a separate column in these tables to reconcile this information to the primary financial statements. Shareholder credit exposure on unit linked assets is limited to the level of asset manager fee which is dependent on the underlying assets. In certain circumstances the shareholder funds may be used to re-establish unit linked assets in line with regulatory and policyholder expectations.

Concentration of credit risk

Concentration of credit risk might exist where the Group has significant exposure to an individual counterparty or a group of counterparties with similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The Group has most of its counterparty risk within its life business and this is monitored by the counterparty limits contained within the investment guidelines and investment management agreements, overlaid by regulatory requirements.

The Group is also exposed to concentration risk with outsourced service providers. This is due to the nature of the outsourced services market. The Group operates a policy to manage outsourcer service counterparty exposures and the impact from default is reviewed regularly by executive committees and measured though the ICA stress and scenario testing.

Collateral

The credit risk of the Group is mitigated, in certain circumstances, by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for securities lending, certain reinsurance arrangements and to provide security against the maturity proceeds of derivative financial instruments. Management monitors the market value of the collateral received, requests additional collateral when needed and performs an impairment valuation when impairment indicators exist and the asset is not fully secured.

42.3.2 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest risk, currency risk and other price risk.

The Group is mainly exposed to market risk as a result of:

- the mismatch between liability profiles and the related asset investment portfolios;
- the investment of surplus assets including shareholder reserves yet to be distributed, surplus assets within the with profit funds and assets held to meet regulatory capital and solvency requirements; and
- the income flow of management charges from the invested assets of the business.

The Group manages the levels of market risk that it accepts through an approach to investment management that determines:

- the constituents of market risk for the Group;
- the basis used to fair value financial assets and liabilities;
- the asset allocation and portfolio limit structure;
- diversification from benchmarks by type of instrument and geographical area;
- the net exposure limits by each counterparty or group of counterparties, geographical and industry segments;
- control over hedging activities;
- reporting of market risk exposures and activities; and
- monitoring of compliance with market risk policy and review of market risk policy for pertinence to the changing environment.

All operations comply with regulatory requirements relating to the taking of market risk.

Interest risk

Interest risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates due to the effect such movements have on the value of interest-bearing assets and on the value of future guarantees provided under certain contracts of insurance.

Interest risk is managed by matching assets and liabilities where practicable and by entering into swap arrangements where appropriate. This is particularly the case for the non participating funds. For participating business, some element of investment mismatching is permitted where it is consistent with the principles of Treating Customers Fairly. The with profit funds of the Group provide capital to allow such mismatching to be effected. In practice, the life companies of the Group maintain an appropriate mix of fixed and variable rate instruments according to the underlying insurance or investment contracts and will review this at regular intervals to ensure that overall exposure is kept within the risk profile agreed for each particular fund. This also requires the maturity profile of these assets to be managed in line with the liabilities to policyholders.

The sensitivity analysis for interest risk indicates how changes in the fair value or future cash flows of a financial instrument arising from changes in market interest rates at the reporting date result in a change in profit after tax and in equity. It takes into account the effect of such changes in market interest rates on all assets and liabilities that contribute to the Group's reported profit after tax and equity.

With profit business and non profit business within the with profit funds are exposed to interest risk as guaranteed liabilities are valued relative to market interest rates and investments include fixed interest stocks and derivatives. For with profit business the profit or loss arising from mismatches between such assets and liabilities is largely offset by increased or reduced discretionary policyholder benefits. The contribution of these funds to the Group result is determined primarily by either the shareholders' share of the declared annual bonus or by the shareholders' interest in any change in value in the capital advanced to the Group's with profit funds.

In the non participating funds, policy liabilities are duration matched with primarily fixed interest securities, with the result that sensitivity to changes in interest rates is very low.

An increase of 1% in interest rates, with all other variables held constant, would result in decreases in the profit after tax in respect of a full financial year and in equity of £61 million (2008: £nil). A decrease of 1% in interest rates, with all other variables held constant, would result in an additional profit after tax in respect of a full financial year and an increase in equity of £89 million (2008: £nil).

Price risk

The Group's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices other than from interest rate and currency fluctuations. This is due to factors specific to individual instruments, their issuers or factors affecting all instruments traded in the market. Accordingly, the Group limits its exposure to any one counterparty in its investment portfolios and to any one foreign market.

The portfolio of marketable equity securities, and property investments, which is carried in the statement of consolidated financial position at fair value, has exposure to price risk. The Group's objective in holding these assets is to earn higher long-term returns by investing in a diverse portfolio of high quality equities and properties. Portfolio characteristics are analysed regularly and price risks are actively managed in line with investment mandates. The Group's holdings are diversified across industries, and concentrations in any one company or industry are limited.

Equity and property price risk is primarily borne in respect of assets held in with profit or unit linked funds. For unit linked funds this risk is borne by policyholders and asset movements directly impact unit prices and hence policy values. For with profit funds policyholders' future bonuses will be impacted by the investment returns achieved and hence the price risk. In addition some equity investments are held in respect of equity holders' funds. The Group as a whole is exposed to price risk fluctuations impacting the income flow of management charges from the invested assets of all funds.

Equity and property price risk is managed through the agreement and monitoring of financial risk profiles that are appropriate for each of the Group's life funds in respect of maintaining adequate regulatory capital and Treating Customers Fairly. This is largely achieved through asset class diversification.

The impact of non government fixed interest securities and, inter alia, the change in market credit spreads during the year are fully reflected in the values shown in these financial statements. Similarly, the value of derivatives that the Group holds takes into account fully the changes in swap spreads.

The sensitivity analysis for equity and property price risk illustrates how a change in the fair value of equities and properties affects the Group result. It takes into account the effect of such changes in equity and property prices on all assets and liabilities that contribute to the Group's reported profit after tax and in equity.

A 10% decrease in equity/property prices, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full financial year and in equity of £17 million (2008: £nil).

A 10% increase in equity/property prices, with all other variables held constant, would result in an increase in the profit after tax in respect of a full financial year and in equity of £13 million (2008: £nil).

There is also an exposure to spread changes affecting the prices of corporate bonds and derivatives. This exposure applies to with profit funds, unit linked funds, non profit funds (where risks and rewards fall wholly to shareholders) and in shareholders' funds.

A 100 basis point widening of credit spreads, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full financial year and in equity of £196 million (2008: £nil).

A 100 basis point narrowing of credit spreads, with all other variables held constant, would result in an increase in the profit after tax in respect of a full financial year and in equity of £216 million (2008: £nil).

Currency risk

The Group's principal transactions are carried out in sterling and therefore its exchange risk is limited principally to foreign operations.

The Group's foreign operations (taken to be those denominated in non-sterling) generally invest in assets in the same currency denomination as their liabilities, so foreign currency mismatch risk between assets and liabilities is largely mitigated. Consequently, the foreign currency risk from the foreign operations mainly arises when the assets and liabilities denominated in a foreign currency are translated into sterling.

The Group's financial assets are primarily denominated in the same currencies as its insurance and investment liabilities. Thus the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled and, indirectly, from the earnings of UK companies arising abroad.

Certain Phoenix Life with profit funds have an exposure to overseas assets which is not driven by liability considerations. The purpose of this exposure is to reduce overall risk whilst maximising returns by diversification. This exposure is limited and managed through investment mandates which are subject to the oversight of the Investment Committees of the Boards of each life company. Fluctuations in exchange rates from holdings in overseas assets are hedged against currency risks.

Sensitivity of profit after tax and in equity to fluctuations in currency exchange rates is not considered significant at 31 December 2009, since unhedged exposure to foreign currency was relatively low.

42.3.3 Liquidity risk

Liquidity risk is defined as the failure of the Group to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. The Group has exposure to liquidity risk as a result of servicing its external debt and equity investors, and from the operating requirements of its subsidiaries. The Group's subsidiaries have exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements.

The Board of Phoenix Group Holdings has defined a number of governance objectives and principles and the liquidity risk frameworks of each subsidiary are designed to ensure that:

- liquidity risk is managed in a manner consistent with the subsidiary companies Boards' strategic objectives, risk appetite and Principles and Practices of Financial Management ("PPFM");
- cash flows are appropriately managed and the reputation of the Group is safeguarded; and
- appropriate information on liquidity risk is available to those making decisions.

The Group's policy is to maintain sufficient liquid assets of suitable credit quality at all times and, where appropriate, to have access to borrowings so as to be able to meet all foreseeable current liabilities as they fall due in a cost-effective manner. Forecasts are prepared regularly to predict required liquidity levels over both the short and medium term allowing management to respond appropriately to changes in circumstances.

Some of the Group's commercial property investments are held through a unit trust managed by Ignis Asset Management. This unit trust has the power to restrict and/or suspend withdrawals, which would, in turn, affect liquidity. To date, the unit trust has continued to process both investments and realisations in a normal manner and has not imposed any restrictions or delays.

The following table provides a maturity analysis showing the remaining contractual maturities of the Group's undiscounted financial liabilities and associated interest. Liabilities under insurance contract contractual maturities are included based on the estimated timings of the amounts recognised in the statement of consolidated financial position in accordance with the requirements of IFRS 4:

2009

	1 year or less or on demand	1-5 years	Greater than 5 years	No fixed term	Total
	£m	£m	£m	£m	£m
Liabilities under insurance contracts	10,141	14,539	23,748	1,863	50,291
Investment contracts	8,570	—	—	—	8,570
Borrowings	95	2,447	1,950	258	4,750
Deposits received from reinsurers	38	138	522	—	698
Derivatives	1,448	363	1,511	—	3,322
Net asset value attributable to unit holders	946	—	—	—	946
Obligations for repayment of collateral received	3,054	158	412	484	4,108
Reinsurance payables	17	—	—	—	17
Payables related to direct insurance contracts	693	66	—	—	759
Accruals and deferred income	174	3	—	—	177
Other payables	325	8	—	317	650

2008

	1 year or less or on demand	1-5 years	Greater than 5 years	No fixed term	Total
	£m	£m	£m	£m	£m
Accruals and deferred income	9	—	—	—	9

Investment contract policyholders have the option to terminate or transfer their contracts at any time and to receive the surrender or transfer value of their policies. Although these liabilities are payable on demand, and are therefore included in the contractual maturity analysis as due within one year, the Group does not expect all these amounts to be paid out within one year of the reporting date.

A significant proportion of the Group's financial assets are held in gilts, cash, supranationals and highly rated securities which the Group considers sufficient to meet the liabilities as they fall due.

42.4 Unit linked contracts

For unit linked contracts the Group matches all the liabilities with assets in the portfolio on which the unit prices are based. There is therefore no interest, price, currency or credit risk for the Group on these contracts.

In extreme circumstances, the Group could be exposed to liquidity risk in its unit linked funds. This could occur where a high volume of surrenders coincides with a tightening of liquidity in a unit linked fund to the point where assets of that fund have to be sold to meet those withdrawals. Where the fund affected consists of property, it can take several months to complete a sale and this would impede the proper operation of the fund. In these situations, the Group considers its risk to be low since there are steps that can be taken first within the funds themselves both to ensure the fair treatment of all investors in those funds and to protect the Group's own risk exposure.

(e) Insurance risk

Insurance risk refers to the risk that the frequency or severity of insured events may be worse than expected and includes expense risk. The Phoenix Life segment contracts include the following sources of insurance risk:

Mortality – Higher than expected number of death claims on assurance products and occurrence of one or more large claims;

Longevity – Faster than expected improvements in life expectancy on immediate and deferred annuity products;

Morbidity – Higher than expected number of serious illness claims or more sickness claims which last longer on income protection policies;

Expenses – Policies cost more to administer than expected;

Lapses – The numbers of policies terminating early is different to that expected in a way which increases expected claims costs or expenses or reduces future profits; and

Options – Unanticipated changes in policyholder option exercise rates giving rise to increased claims costs.

Objectives and policies for mitigating insurance risk

The Group uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, experience analyses, external data comparisons, sensitivity analyses, scenario analyses and stress testing.

The profitability of the run-off of the closed long-term insurance businesses within the Group depends to a significant extent on the values of claims paid in the future relative to the assets accumulated to the date of claim. Typically, over the lifetime of a contract, premiums and investment returns exceed claim costs in the early years and it is necessary to set aside these amounts to meet future obligations. The amount of such future obligations is assessed on actuarial principles by reference to assumptions about the development of financial and insurance risks.

It is therefore necessary for the Board of each life company to make decisions, based on actuarial advice, which ensure an appropriate accumulation of assets relative to liabilities. These decisions include investment policy, bonus policy and, where discretion exists, the level of payments on early termination.

Sensitivities

Insurance liabilities are sensitive to changes in risk variables, such as prevailing market interest rates, currency rates and equity prices, since these variations alter the value of the financial assets held to meet obligations arising from insurance contracts and changes in investment conditions also have an impact on the value of insurance liabilities themselves. Additionally, insurance liabilities are sensitive to the assumptions which have been applied in their calculation, such as mortality and lapse rates. Sometimes allowance must also be made for the effect on future assumptions of management or policyholder actions in certain economic scenarios. This could lead to changes in assumed asset mix, or future bonus rates. The most significant non-economic sensitivities arise from mortality, longevity and lapse risk.

A decrease of 5% in assurance mortality, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year and an increase in equity of £27 million (2008: £nil).

An increase of 5% in assurance mortality, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year and a decrease in equity of £27 million (2008: £nil).

A decrease of 5% in annuitant longevity, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year and an increase in equity of £91 million (2008: £nil).

An increase of 5% in annuitant longevity, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year and a decrease in equity of £83 million (2008: £nil).

A decrease of 25% in lapse rates, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year and a decrease in equity of £50 million (2008: £nil).

An increase of 25% in lapse rates, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year and an increase in equity of £41 million (2008: £nil).

42.5.1 Assumptions

Valuation of participating insurance and investment contracts

For participating business, which is with profit business (insurance and investment contracts), the insurance contract liability is calculated in accordance with the FSA's realistic capital regime, adjusted to exclude the shareholders' share of future bonuses and the associated tax liability as required by FRS 27 '*Life Assurance*'. This is a market consistent valuation, which involves placing a value on liabilities similar to the market value of assets with similar cash flow patterns.

Valuation of non participating insurance contracts

The non participating insurance contract liabilities are determined either a net premium or gross premium valuation method.

Process used to determine assumptions

For participating business in realistic basis companies the assumptions about future demographic trends are intended to be "best estimates". They are determined after considering the companies' recent experience and/or relevant industry data. Economic assumptions are market consistent.

For other business, demographic assumptions are derived by adding a prudent margin to best estimate assumptions. Economic assumptions are prudent estimates of the returns expected to be achieved on the assets backing the liabilities.

During the year a number of changes were made to assumptions to reflect changes in expected experience or to harmonise the approach across the enlarged Group. The impact of material changes during the year were as follows:

	Increase/ (decrease) in insurance liabilities 2009	Increase/ (decrease) in insurance liabilities 2008
	£m	£m
Change in longevity assumptions	(73)	—
Change in persistency assumptions	94	—

Valuation interest rate

For realistic basis companies the liabilities are determined stochastically using an appropriate number of risk-neutral scenarios produced by an economic scenario generator calibrated to market conditions and gilt yields as at the valuation date.

For funds not subject to realistic reporting, the method used to determine valuation interest rates generally follows the regulations set out in the Prudential Sourcebook for Insurers.

Assets are firstly hypothecated to classes of business being valued. The valuation interest rates for each block of business are based on the expected returns of the hypothecated assets. The yield is then adjusted to make allowance for credit risk, liquidity risk, reinvestment risk and investment management expenses.

Valuation interest rates (after tax for life policies) are typically in the following ranges:

	2009	2008
	%	%
Life policies	2.14 – 3.82	—
Pension policies	2.76 – 4.84	—

Expense inflation

Expenses are assumed to increase at the rate of increase in the Retail Price Index ("RPI") plus fixed margins in accordance with the various Management Service Agreements ("MSAs") the Group has in place with outsourced service providers. For with profit business the rate of RPI inflation is determined within each stochastic scenario. For other business it is based on the Bank of England inflation spot curve. For MSAs with contractual increases set by reference to national average earnings inflation, this is approximated as RPI inflation plus 1%. In instances in which inflation risk is not mitigated, a further margin for adverse deviations may then be added to the rate of expense inflation.

Mortality and longevity rates

Mortality rates are based on published tables, adjusted appropriately to take account of changes in the underlying population mortality since the table was published, company experience and forecast changes in future mortality. Where appropriate, a margin is added to assurance mortality rates to allow for adverse future deviations. Annuitant mortality rates are adjusted to make allowance for future improvements in pensioner longevity.

Lapse and surrender rates (persistency)

The assumed rates for surrender and voluntary premium discontinuance depend on the length of time a policy has been in force and the relevant company. Surrender or voluntary premium discontinuances are only assumed for realistic basis companies. Withdrawal rates used in the valuation of with profit policies are based on observed experience and adjusted when it is considered that future policyholder behaviour will be influenced by different considerations than in the past. In particular, it is assumed that withdrawal rates for unitised with profit contracts will be higher on policy anniversaries on which Market Value Adjustments do not apply.

Discretionary participating bonus rate

For realistic basis companies, the regular bonus rates assumed in each scenario are determined in accordance with each company's PPFM. Final bonuses are assumed at a level such that maturity payments will equal asset shares subject to smoothing rules set out in the PPFM.

Policyholder options and guarantees

Some of the Group's products give potentially valuable guarantees, or give options to change policy benefits which can be exercised at the policyholders' discretion. These products are described below.

Most with profit contracts give a guaranteed minimum payment on a specified date or range of dates or on death if before that date or dates. For pensions' contracts, the specified date is the policyholder's chosen retirement date or a range of dates around that date. For endowment contracts, it is the maturity date of the contract. For with profit bonds it is often a specified anniversary of commencement, in some cases with further dates thereafter. Annual bonuses when added to with profit contracts usually increase the guaranteed amount.

There are guaranteed surrender values on a small number of older contracts.

Some pensions' contracts include guaranteed annuity options which (see deferred annuities in section 42.5.2 for details). The total amount provided in the with profit and non profit funds in respect of the future costs of guaranteed annuity options are £1,469 million (2008: £nil) and £52 million (2008: £nil) respectively.

In common with other life companies in the UK that have written pension transfer and opt-out business, the Group has set up provisions for the review and possible redress relating to personal pension policies. These provisions, which have been calculated from data derived from detailed file reviews of specific cases and using a certainty equivalent approach, which give a result very similar to a market consistent valuation, are included in liabilities arising under insurance contracts. The total amount provided in the with profit funds and non profit funds in respect of the review and possible redress relating to pension policies, including associated costs, are £325 million (2008: £nil) and £46 million (2008: £nil) respectively.

With profits deferred annuities participate in profits only up to the date of retirement. At retirement, a Guaranteed Cash Option ("GCO") allows the policyholder to commute the annuity benefit into cash on guaranteed terms.

42.5.2 Managing product risk

The following sections give an assessment of the risks associated with the Group's main life assurance products and the ways in which the Group manages those risks.

	2009 Gross		**2009 Reinsurance**	
	Insurance contracts	**Investment contracts with DPF**	**Insurance contracts**	**Investment contracts with DPF**
	£m	**£m**	**£m**	**£m**
With profits funds				
Pensions				
Deferred annuities – with guarantees	8,821	73	392	—
Deferred annuities – without guarantees	1,550	112	—	—
Immediate annuities	3,679	—	671	—
Unitised with profits	1,279	9,051	90	—
Total pensions	15,329	9,236	1,153	—
Life				
Immediate annuities	74	—	7	—
Unitised with profits	1,398	601	40	—
Life with profits	7,725	—	12	—
Total life	9,197	601	59	—
Other	2,290	6	92	—
Non profit funds				
Deferred annuities – with guarantees	117	—	59	—
Deferred annuities – without guarantees	1,012	5	474	—
Immediate annuities	8,073	—	704	—
Protection	610	—	290	—
Unit linked	1,888	1,423	13	—
Other	449	55	16	—
	38,965	11,326	2,860	—

With profit Fund (Unitised and Traditional)

The Group operates a number of with profit funds in the UK in which the with profit policyholders benefit from a discretionary annual bonus (guaranteed once added in most cases) and a discretionary final bonus. Non profit business is also written in some of the with profit funds and some of the funds may include immediate annuities and deferred annuities with Guaranteed Annuity Rates ("GAR").

The investment strategy of each fund differs, but is broadly to invest in a mixture of fixed interest investments and equities and/or property in such proportions as is appropriate to the investment risk exposure of the fund and its capital resources.

The Group has significant discretion regarding investment policy, bonus policy and early termination values. The process for exercising discretion in the management of the with profit funds is set out in the PPFM for each with profit fund and is overseen by with profit committees. Advice is also taken from the with profit actuary of each company which has a with profit fund. Compliance with the PPFM is reviewed annually and reported to the FSA and policyholders.

The bonuses are designed to distribute to policyholders a fair share of the return on the assets in the with profit funds together with other elements of the experience of the fund. The shareholders of the Group are entitled to receive one-ninth of the cost of bonuses declared for some funds and £nil for others.

Unitised and traditional with profit policies are exposed to equivalent risks, the main difference being that unitised with profit policies purchase notional units in a with profit fund whereas traditional with profit policies do not. Benefit payments for unitised policies are then dependent on unit prices at the time of a claim, although charges may be applied. A unitised with profit fund price is typically guaranteed not to fall and increases in line with any discretionary bonus payments over the course of one year.

Deferred annuities

Deferred annuity policies are written to provide either a cash benefit at retirement, which the policyholder can use to buy an annuity on the terms then applicable, or an annuity payable from retirement. The policies contain an element of guarantee expressed in the form that the contract is written in, i.e. to provide cash or an annuity. Deferred annuity policies written to provide a cash benefit may also contain an option to convert the cash benefit to an annuity benefit on guaranteed terms; these are known as GAR policies. Deferred annuity policies written to provide an annuity benefit may also contain an option to convert the annuity benefit into cash benefits on guaranteed terms; these are known as GCO policies.

During the last decade, interest rates and inflation have fallen and life expectancy has increased more rapidly than originally anticipated. Deferred annuity policies which are written to provide annuity benefits are managed in a similar manner to immediate annuities and are exposed to the same risks.

The guaranteed terms on GAR policies are more favourable than the annuity rates currently available in the market available for cash benefits. The guaranteed terms on GCO policies are currently not valuable.

The option provisions on GAR policies are particularly sensitive to downward movements in interest rates, increasing life expectancy and the proportion of customers exercising their option. Adverse movements in these factors could lead to a requirement to increase reserves which could adversely impact profit and potentially require additional capital. In order to address the interest rate risk (but not the risk of increasing life expectancy or changing customer behaviour with regard to exercise of the option), insurance subsidiaries within the Group have purchased derivatives that provide protection against an increase in liabilities and have thus reduced the sensitivity of profit to movements in interest rates.

The Group seeks to manage this risk in accordance with both the terms of the issued policies and the interests of customers, and has obtained external advice supporting the manner in which it operates the long-term funds in this respect.

Immediate annuities

This type of annuity is purchased with a single premium at the outset, and is paid to the policyholder for the remainder of their lifetime. Payments may also continue for the benefit of a surviving spouse or partner after the annuitant's death. Annuities may be level, or escalate at a fixed rate, or may escalate in line with a price index and may be payable for a minimum period irrespective of whether the policyholder remains alive.

The main risks associated with this product are longevity and investment risks. Longevity risk arises where the annuities are paid for the lifetime of the policyholder, and is managed through the initial pricing of the annuity and through reinsurance (appropriately collateralised) or transfer of existing liabilities. Annuities may also be a partial 'natural hedge' against losses incurred in protection business in the event of increased mortality (and vice versa) although the extent to which this occurs will depend on the similarity of the demographic profile of each book of business.

The pricing assumption for mortality risk is based on both historic internal information and externally generated information on mortality experience, including allowances for future mortality improvements. Pricing will also include a contingency margin for adverse deviations in assumptions.

Investment risk depends on the extent to which the annuity payments under the contracts have been matched by suitable assets which is managed under the ALM framework. Asset/liability modelling is used to monitor this position on a regular basis.

Protection

These contracts are typically secured by the payment of a regular premium payable for a period of years providing benefits payable on certain events occurring within the period. The benefits may be a single lump sum or a series of payments and may be payable on death, serious illness or sickness.

The main risk associated with this product is the claims experience and this risk is managed through the initial pricing of the policy (based on actuarial principles), the use of reinsurance and a clear process for administering claims.

43. Operating leases

Operating lease rentals charged within administrative expenses amounted to £15 million (2008: £nil).

The Group has commitments under non-cancellable operating leases as set out below:

	2009	2008
	£m	£m
Not later than one year	11	—
Later than one year and no later than five years	42	—
Later than five years	54	—

The principal operating lease commitments primarily concern office space located at Bothwell Street, Glasgow; St Vincent Street, Glasgow; Juxon House, London and Harcourt Street, London.

44. Commitments

	2009	2008
	£m	£m
To subscribe to private equity funds and other unlisted assets	520	—
To purchase, construct or develop investment property	108	—
For repairs, maintenance or enhancements of investment property	3	—

45. Related party transactions

The Group has related party transactions with its pension schemes, its Directors and entities where its Directors are deemed to have significant influence.

Transactions with pension schemes

During the year the Group entered into the following transactions with its pension schemes:

	Transactions 2009	Balances outstanding 2009
	£m	£m
Pearl Scheme		
Investment management fees	1.4	1.4
Payment of administrative expenses	(1.0)	(0.3)
	0.4	1.1
PGL Scheme		
Investment management fees	0.7	0.5

The Pearl Scheme has invested in collective investment schemes that are controlled by the Group. At 31 December 2009 the Pearl Scheme held 1,118,197 units in the Axial Systematic Strategies Fund and 115,477,491 units in the Ignis Liquidity Fund. The value of these investments at 31 December 2009 was £154 million (2008: £nil) and £115 million (2008: £nil) respectively.

Other transactions and transactions with Directors and former Directors

Major Group decisions are made by the Board. Total remunerations received by current Directors in the year ended 31 December 2009 totalled £2.4 million (2008: £nil). Further details are given in the Remuneration Report.

On 4 January 2008, the one ordinary share issued at formation was transferred to Berggruen Acquisition Holdings Limited (an affiliate of Berggruen Acquisition Holdings II Ltd) and one additional ordinary share was issued to Marlin Equities IV, LLC. These two shares were subsequently repurchased by the Company on 11 January 2008.

Nicholas Berggruen is the President of Berggruen Acquisition Holdings II Limited and Martin Franklin is the majority owner and managing member of Marlin Equities IV, LLC. The interests of these former Directors in the ordinary shares of the Company represent the interests of Berggruen Acquisition Holdings II Limited and Marlin Equities IV, LLC respectively. On 9 January 2008, each of Berggruen Acquisition Holdings II Limited, Marlin Equities IV, LLC, and the Company's three initial independent Directors, Dimitri Goulandris, Guy Naggar and Miguel Pais do Amaral (collectively, the ''Founders'') issued a non-interest-bearing note in favour of the Company for the purchase price of the Founders' ordinary shares (''Founders' shares'') and warrants (''Founders' warrants'') in the aggregate amount of €25,000. These notes were repaid by the Founders on 28 January 2008. On 10 January 2008, 20,125,000 units (each unit consisting of one Founders' share and one Founders' warrant and together referred to herein as a (''Founders' unit'') were issued as follows:

	Units	Subscription Price
		€
Berggruen Acquisition Holdings II Ltd	9,934,505	12,341
Marlin Equities IV, LLC	9,934,505	12,341
Dimitri Goulandris	85,330	106
Guy Naggar	85,330	106
Miguel Pais do Amaral	85,330	106
Total	20,125,000	25,000

On 11 January 2008, each of Berggruen Acquisition Holdings II Ltd and Marlin Equities IV, LLC agreed to invest €4.0 million (€8.0 million in the aggregate) in the Company in the form of Sponsors' warrants to purchase 4,000,000 shares (8,000,000 in the aggregate) at a price of

€1.00 per warrant. Each of Berggruen Acquisition Holdings II Ltd and Marlin Equities IV, LLC purchased such Sponsors' warrants from the Company immediately prior to the consummation of the IPO on 13 February 2008.

On 11 January 2008, each of Berggruen Acquisition Holdings II Ltd and Marlin Equities IV, LLC agreed to invest €25.0 million and Mr Naggar agreed to invest €10.0 million (€60.0 million in the aggregate) in the Company in the form of co-investment units at a price of €10.00 per unit immediately prior to the consummation of a business combination. In connection with the business combination the co-investment rights were cancelled.

On or about 5 February 2008, in connection with the pricing of the IPO, the Company repurchased an aggregate of 2,875,000 of the Founders' units as follows:

	Units	Subscription Price
		€
Berggruen Acquisition Holdings II Ltd	1,419,215	1,760
Marlin Equities IV, LLC	1,419,215	1,760
Dimitri Goulandris	12,190	15
Guy Naggar	12,190	15
Miguel Pais do Amaral	12,190	15
Total	2,875,000	3,565

On 11 March 2008, as a result of the expiration without exercise of the underwriters over allotment option in connection with the IPO, Founders' units were automatically redeemed as follows:

	Units
Berggruen Acquisition Holdings II Ltd	1,110,690
Marlin Equities IV, LLC	1,110,690
Dimitri Goulandris	9,540
Guy Naggar	9,540
Miguel Pais do Amaral	9,540
Total	2,250,000

On 29 October 2008, Guy Naggar resigned from the Board of Directors and agreed to forfeit his Founders' shares and Founders' warrants, which forfeiture was effected by the Company's repurchase of his Founders' shares at par value (and the concurrent cancellation of his Founders' warrants) upon the approval by the Company's owners and the Company's consummation of a business combination. On 29 October 2008, the Company's Board of Directors appointed Ashley Silverton to fill the vacancy on the Board of Directors. The Company paid Ashley Silverton €10,000 as compensation for his agreeing to fill this vacancy and agreed to pay Ashley Silverton a fee in the amount of €636,000 upon the consummation of a business combination. In connection with his appointment to the Board of Directors, Ashley Silverton resigned his position as vice president of the Company. The fee of €636,000 was paid to Ashley Silverton on 2 September 2009.

Prior to the IPO, the Company agreed to pay Berggruen Holdings Ltd, an affiliate of Nicholas Berggruen, a total of €10,000 per month commencing on the date of the IPO for certain operating services and support until the earlier of the Company's consummation of a business combination or its liquidation. This arrangement with Berggruen Holdings Ltd was agreed to by Berggruen Holdings Ltd for the Company's benefit and was not intended to provide Berggruen Holdings Ltd compensation in lieu of a management fee. The Company believes that such fees are at least as favourable as it could have obtained from an unaffiliated third party. Prior to the IPO, Berggruen Holdings Ltd provided the Company with certain operating services and support at no charge. This fee ceased on the acquisition of the Pearl businesses and €80,000 was charged in 2009. No amounts were outstanding at 31 December 2009.

Other than part of the €10,000 per month for operating services and support payable to Berggruen Holdings Limited and a €1,000 per month fee payable to Ashley Silverton for his services as an officer of the Company, the €10,000 payment to Ashley Silverton for his agreeing to fill the vacancy on the Board of Directors following Guy Naggar's resignation, the €636,000 fee payable to Ashley Silverton upon the consummation of a business combination and reimbursable out-of-pocket expenses payable to the Company's officers and Directors, no compensation or fees of any kind, including finders and consulting fees, have been or will be paid to the Company's officers or its Directors who owned the Company's shares prior to the IPO, or to any of their respective affiliates for services rendered to the Company prior to or in connection with a business combination.

On 27 June 2009, the Company entered into a contingent subscription agreement with Berggruen Acquisition Holdings II Ltd and Marlin Equities, IV, LLC whereby the Company agreed to grant to them or their nominees the right to receive 1,000,000 'B' ordinary shares in exchange for Berggruen Acquisition Holdings II Limited and Marlin Equities, IV, LLC agreeing to subscribe for new shares to a maximum value of £75 million, should the available cash in the Company fall below £450 million on the acquisition of the Pearl businesses. These will be issued if the share price of the company exceeds €15.00 for 20 consecutive trading days.

On 2 September 2009, in connection with the acquisition of the Pearl businesses, the Company repurchased the Founders' shares from Guy Naggar and concurrently cancelled the related Founders' warrants.

On the same date, 50% of the remaining Founders' warrants were converted into ordinary shares as follows:

	Units	Number of Ordinary shares
Berggruen Acquisition Holdings II Ltd	3,702,300	357,122
Marlin Equities, IV, LLC	3,702,300	357,122
Dimitri Goulandris	31,800	3,067
Miguel Pais do Amaral	31,800	3,067
Total	7,468,200	720,378

Also on 2 September 2009, 50% of the Sponsors warrants' were converted into ordinary shares as follows:

	Units	Number of Ordinary shares
Berggruen Acquisition Holdings II Ltd	2,000,000	192,919
Marlin Equities, IV, LLC	2,000,000	192,919
Total	4,000,000	385,838

During the year the Group has been charged a transitional services fee of £0.4 million from TDR Capital LLP a company in which Manjit Dale is deemed to have significant influence. This amount was outstanding at 31 December 2009.

As a result of the acquisition the Pearl businesses, TDR Capital Nominees Limited (as nominee for TDR Capital I and other related entities) received 13,014,055 'B' ordinary shares and £10,871,095 contingent rights over shares in Phoenix Group Holdings in exchange for shares they held in the acquired group of companies. TDR Capital Nominees Limited is a subsidiary of TDR Capital LLP.

The Group is party to an uncollateralised total return swap with TDR Capital Nominees Limited in relation to the performance of certain investments of Axial Income Opportunities S.a.r.l. As at 31 December 2009 a fair value of £27.1 million (2008: £nil) has been attributed to these swaps and interest of £1.4 million (2008: £nil) has been charged by TDR Capital Nominees Limited. At 31 December 2009, interest of £0.3 million was outstanding (2008: £nil).

As a result of the acquisition of the Pearl businesses the Jambright Limited group of companies, a group in which Manjit Dale is deemed to have significant influence, received 4,506,268 'B' ordinary shares in Phoenix Group Holdings in exchange for shares it held in the acquired group of companies.

During the year the Group has also been charged a transitional services fee of £0.1million and investment management fees of £0.4 million from Sun Capital Partners Limited, a company in which Hugh Osmond is deemed to have significant influence. The transitional services fee was outstanding at 31 December 2009.

During the year an associate of the Group, Sant Topco Holdings I S.a.r.l has been charged a financial consulting fee of €0.1million by Sun Capital Partners Limited.

As a result of the acquisition of the Pearl businesses O-Re Holdings (Netherlands) BV, a company in which Manjit Dale and Hugh Osmond are deemed to have significant influence, received 2,481,064 'B' ordinary shares and 2,198,970 contingent rights over shares in Phoenix Group Holdings in exchange for shares they held in the acquired group of companies.

As a result of the acquisition of the Pearl businesses the Xercise Limited group of companies, a group in which Hugh Osmond is deemed to have significant influence, received 14,108,205 'B' ordinary shares and 9,180,660 contingent rights over shares in Phoenix Group Holdings in exchange for shares it held in the acquired group of companies

As a result of the acquisition of the Pearl businesses, some of the Directors received shares and contingent rights over shares in Phoenix Group Holdings in exchange for shares they held in the acquired group of companies. Details of the shareholdings of Directors are provided in the Remuneration Report.

46. Contingent liabilities

In the normal course of business the Group is exposed to certain legal issues, which involve litigation and arbitration, and as at the period end, the Group has a contingent liability in this regard.

Following the previous acquisition by the Pearl businesses, the shares in PLL and certain loans were transferred from the non profit fund to the shareholder fund of PA (GI) Limited at their admissible regulatory value. HM Revenue & Customs ("HMRC") challenged the tax treatment of these transfers in the year ended 31 December 2004 and litigation was expected to follow in 2010. On 21 April 2010, HMRC withdrew from the impending litigation.

London Life Limited provided information to the FSA on its categorisation of working capital to owner funds in 2006. The Directors are confident in their treatment, which is supported by legal and actuarial advice, but note that the FSA have not concluded their review into the matter. A contingent liability of £17 million exists if London Life Limited were required to transfer this working capital back to policyholder funds.

47. Group entities

The principal subsidiary undertakings of the Group are as follows:

	Country of incorporation and principal place of operation	Class of shares held (wholly-owned unless otherwise indicated)
Insurance companies		
BA (GI) Limited (general insurance company)	UK	Ordinary shares of £0.05
London Life Limited	UK	Ordinary shares of £1
National Provident Life Limited	UK	Ordinary shares of £1
NPI Limited	UK	Ordinary shares of £1
Pearl Assurance plc	UK	'A' ordinary shares of £0.05
PA (GI) Limited (general insurance company)	UK	Ordinary shares of £0.01 and deferred shares of £0.25
Phoenix Life Limited	UK	Ordinary shares of £1
Phoenix & London Assurance Limited	UK	Ordinary shares of £1
Phoenix Pensions Limited	UK	Ordinary shares of £1
Scottish Mutual International Limited	ROI	Ordinary shares of €1.25
Non-insurance companies		
Axial Fixed Income Opportunities S.a.r.l. (investment vehicle)	Luxembourg	Ordinary shares of €100
Ignis Asset Management Limited (investment management company)	UK	Ordinary shares of £1
Ignis Investment Management Limited (investment management company)	UK	Ordinary shares of £1
Ignis Fund Managers Limited (unit trust management)	UK	Ordinary shares of £1
Ignis Investment Services Limited (investment management company)	UK	Ordinary shares of £1
Impala Holdings Limited (holding company)	UK	'A' ordinary shares of £1, 'B' ordinary shares of £1 and 'D' ordinary shares of £1
Mutual Securitisation plc (finance company)	ROI	Quasi subsidiary
NP Life Holdings Limited (holding company)	UK	'A' ordinary shares of £1 and 'B' ordinary shares of £1
Opal Reassurance Limited	Bermuda	'A' ordinary shares of £1 and 'B' ordinary shares of £1
PGH (LCA) Limited (finance company)	UK	Ordinary shares of £1
PGH (LCB) Limited (finance company)	UK	Ordinary shares of £1
PGH (LC1) Limited (finance company)	UK	Ordinary shares of £1
PGH (LC2) Limited (finance company)	UK	Ordinary shares of £1
PGH (MC1) Limited (finance company)	UK	Ordinary shares of £1
PGH (MC2) Limited (finance company)	UK	Ordinary shares of £1
PGH (TC1) Limited (holding company)	UK	Ordinary shares of £1
PGH (TC2) Limited (holding company)	UK	Ordinary shares of £1
Pearl Group Holdings (No. 1) Limited (finance company)	UK	Ordinary shares of £1
Pearl Group Holdings (No. 2) Limited (holding company)	UK	Ordinary shares of £1
Pearl Life Holdings Limited (holding company)	UK	Ordinary shares of £1
Pearl Group Services Limited (service company)	UK	Ordinary shares of £1
PGS 2 Limited (finance company)	UK	Ordinary shares of £1
Pearl Group Management Services Limited (service company)	UK	Ordinary shares of £1
Phoenix Life Holdings Limited (holding company)	UK	Ordinary shares of £1
UK Commercial Property Trust Limited (property fund)	Guernsey	72% of ordinary shares of £0.25

The information disclosed above is only in respect of those undertakings which principally affect the figures shown in the Group's accounts. There are a number of other subsidiaries and associated undertakings whose business does not materially affect the Group's profits or the amount of its assets and particulars of these have been omitted in view of their excessive length.

There is a restriction on the ability of some Group companies to distribute funds to Phoenix Group Holdings as a result of restrictions imposed by the Impala facility and the £425 million loan facility agreements.

48. Events after the reporting period

On 5 January 2010, PGH1 announced a proposed restructuring of the Notes. The proposed restructuring was not approved by Noteholders and consequently those proposals were not implemented.

On 23 March 2010, PGH1 gave notice to the holders of the Notes of its decision to defer the coupon payment on the Notes which would otherwise have been due at the next payment date of 25 April 2010. PGH1 announced that this notice would be withdrawn and the 2010 coupon would be paid in full on 25 April 2010 if certain amending proposals were approved by, amongst others, the Noteholders. These proposals include a reduction of 15% in the face value of the Notes and the payment in full of the deferred 2009 coupon by 31 December 2010. Both proposed coupon payments are to be based on the current nominal value of the Notes, being £500 million. These amending proposals were agreed by the Noteholders on 22 April 2010 and the 2010 coupon paid on 26 April 2010.

On 15 March 2010, the Company changed its name from Pearl Group to Phoenix Group Holdings.

On 30 March 2010, the Board declared a dividend of €0.17 per share for the year ended 31 December 2009. The cost of this dividend has not been recognised as a liability in the financial statements for 2009 and will be charged to the statement of changes in equity in 2010.

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The Directors
Phoenix Group Holdings
c/o Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman
KY-1104, Cayman Islands

4 June 2010

Dear Sirs

Original Pearl Business

We report on the financial information in respect of the Original Pearl Business set out in the Annex to the Prospectus. This financial information has been prepared for inclusion in the prospectus dated 4 June 2010 of Phoenix Group Holdings (the "Prospectus") on the basis of the accounting policies set out in paragraph 1. This report is required by item 20.1 of Annex 1 of the Commission Regulation (EC) 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under applicable law to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex 1 to the Commission Regulation (EC) 809/2004, consenting to its inclusion in the prospectus.

Responsibilities

The Directors of Phoenix Group Holdings are responsible for preparing the financial information on the basis of preparation set out in note 1(a) to the financial information.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Prospectus, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Original Pearl Business as at the dates stated and of its profits and losses, cash flows, recognised gains and losses and changes in equity for the periods then ended in accordance with the basis of preparation set out in note 1(a).

Declaration

For the purposes of Commission Regulation (EC) 809/2004 we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex 1 of the Commission Regulation (EC) 809/2004.

Yours faithfully

Ernst & Young LLP

Combined income statement
for the year ended 31 December 2009

	Notes	2009	2008	2007
		£m	£m	£m
Gross premiums written		1,666	1,330	491
Less: premiums ceded to reinsurers		(71)	(76)	(4)
Net premiums written		1,595	1,254	487
Fees	4	200	180	57
Net investment income	5	4,555	(2,668)	1,120
Total revenue, net of reinsurance payable		6,350	(1,234)	1,664
Other operating income	6	132	74	8
Net income		6,482	(1,160)	1,672
Policyholder claims		(5,984)	(5,640)	(2,185)
Less: reinsurance recoveries		189	112	2
Change in insurance contract liabilities		2,128	5,124	982
Change in reinsurers' share of insurance contract liabilities		117	(74)	(2)
Transfer (to)/from unallocated surplus	16	(129)	342	44
Net policyholder claims and benefits incurred		(3,679)	(136)	(1,159)
Change in investment contract liabilities		(1,238)	1,747	(285)
Acquisition costs	7	(23)	(19)	(7)
Change in present value of future profits	28	—	(33)	(6)
Amortisation of acquired in-force business	28	(100)	(98)	—
Impairment of acquired in-force business	28	—	(408)	—
Amortisation of customer relationships and other intangibles	28	(10)	(10)	—
Impairment of customer relationships and other intangibles	28	—	(45)	—
Administrative expenses		(728)	(667)	(137)
Net (income)/expense attributable to unit holders		(29)	140	—
Total operating expenses		(5,807)	471	(1,594)
Profit/(loss) before finance costs and tax		675	(689)	78
Finance costs	10	(499)	(683)	(244)
Profit/(loss) for the year before tax		176	(1,372)	(166)
Tax credit	11	48	439	29
Profit/(loss) for the year		224	(933)	(137)
Attributable to:				
Owners of the parent		177	(920)	(137)
Non-controlling interests	14	47	(13)	—
		224	(933)	(137)

Statement of combined comprehensive income

for the year ended 31 December 2009

	Notes	2009	2008	2007
		£m	£m	£m
Profit/(loss) for the year		224	(933)	(137)
Other comprehensive income:				
Actuarial (losses)/gains of defined benefit pension schemes		(168)	(163)	43
Exchange differences on translating foreign operations		(7)	17	—
Fair value gains/(losses) on available for sale financial assets		—	2	(2)
		(175)	(144)	41
Tax credit/(charge)	11	12	64	(11)
		(163)	(80)	30
Total comprehensive income for the year		61	(1,013)	(107)
Attributable to:				
Owners of the parent		14	(1,000)	(107)
Non-controlling interests		47	(13)	—
		61	(1,013)	(107)

Statement of combined financial position

as at 31 December 2009

	Notes	2009	2008	2007
		£m	£m	£m
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	13	265	193	51
Capital contribution		436	—	—
Foreign currency translation reserve		10	17	—
Available for sale reserve		—	—	(2)
Retained earnings		(549)	(570)	520
Total equity attributable to owners of the parent		162	(360)	569
Non-controlling interests	14	728	652	—
Total equity		890	292	569
Liabilities				
Pension scheme deficit	27	125	141	—
Insurance contract liabilities				
Liabilities under insurance contracts	15	50,291	52,608	18,958
Unallocated surplus	16	721	592	311
		51,012	53,200	19,269
Financial liabilities				
Investment contracts		8,570	7,909	3,958
Borrowings	17	4,787	4,838	1,361
Deposits received from reinsurers	18	431	483	—
Derivatives	19	2,819	3,624	311
Net asset value attributable to unit holders		946	1,920	—
Obligations for repayment of collateral received	20	4,106	5,035	3,531
	21	21,659	23,809	9,161
Provisions	22	101	139	76
Deferred tax	23	464	602	58
Reinsurance payables		17	22	—
Payables related to direct insurance contracts	24	759	731	165
Current tax	23	103	126	78
Accruals and deferred income	25	176	233	52
Other payables	26	760	733	1,264
Total liabilities		75,176	79,736	30,123
Total equity and liabilities		76,066	80,028	30,692

Statement of combined financial position
as at 31 December 2009

	Notes	2009	2008	2007
		£m	£m	£m
ASSETS				
Pension scheme surplus	27	—	135	81
Intangible assets				
Goodwill		146	146	—
Customer relationships		231	238	—
Acquired in-force business		1,395	1,495	8
Present value of future profits		35	35	68
Other		—	3	—
	28	1,807	1,917	76
Property, plant and equipment	29	34	35	4
Investment property	30	1,915	1,986	460
Financial assets				
Loans and receivables		1,126	1,070	101
Derivatives	19	3,523	4,411	613
Equities		13,151	13,540	4,795
Fixed and variable rate income securities		37,658	39,164	15,389
Collective investment schemes		6,094	5,757	6,719
	31	61,552	63,942	27,617
Deferred tax assets	23	81	110	1
Insurance assets				
Reinsurers' share of insurance contract liabilities	15	2,860	2,749	10
Reinsurance receivables		264	286	17
Insurance contract receivables		17	22	12
		3,141	3,057	39
Current tax	23	44	135	—
Deferred acquisition costs	33	13	17	21
Prepayments and accrued income		622	703	274
Other receivables	34	781	416	96
Cash and cash equivalents	35	6,076	7,575	2,023
Total assets		76,066	80,028	30,692

Statement of combined cash flows

for the year ended 31 December 2009

	Notes	2009	2008	2007
		£m	£m	£m
Cash flows from operating activities				
Cash (absorbed)/generated by operations	36	(1,514)	1,680	1,333
Taxation received/(paid)		17	(22)	36
Net cash flows from operating activities		(1,497)	1,658	1,369
Cash flows from investing activities				
Purchase of Resolution plc	36	—	1,319	—
Purchase of property, plant and equipment		(2)	(1)	(4)
Net cash flows from investing activities		(2)	1,318	(4)
Cash flows from financing activities				
Proceeds from issue of share capital		72	142	51
Proceeds of issuing shares to non-controlling owners in UK Commercial Property Trust Limited		43	1	—
Capital contribution received		436	—	—
Interest paid on borrowings		(543)	(624)	(229)
Proceeds of new borrowings		687	5,677	—
Ordinary share dividends paid		—	(71)	—
Dividend paid to non-controlling interests		(14)	(8)	—
Repayment of borrowings		(682)	(2,542)	(120)
Net cash flows from financing activities		(1)	2,575	(298)
Net (decrease)/increase in cash and cash equivalents		(1,500)	5,551	1,067
Cash and cash equivalents at the beginning of the year		7,575	2,023	954
Effect of exchange rate changes on cash and cash equivalents		1	1	2
Cash and cash equivalents at the end of the year	35	6,076	7,575	2,023

Statement of combined changes in equity
for the year ended 31 December 2009

	Share capital	Capital contribution reserve	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests (note 14)	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2009	193	—	17	(570)	(360)	652	292
Profit for the year	—	—	—	177	177	47	224
Other comprehensive income for the year	—	—	(7)	(156)	(163)	—	(163)
Total comprehensive income for the year	—	—	(7)	21	14	47	61
Dividends paid to non-controlling interests	—	—	—	—	—	(14)	(14)
Issue of share capital	72	—	—	—	72	—	72
Capital contribution from Phoenix Group Holdings	—	436	—	—	436	—	436
Shares subscribed for by non-controlling interests	—	—	—	—	—	43	43
At 31 December 2009	265	436	10	(549)	162	728	890

Statement of combined changes in equity
for the year ended 31 December 2008

	Share capital	Foreign currency translation reserve	Available for sale reserve	Retained earnings	Total	Non-controlling interests (note 14)	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2008	51	—	(2)	520	569	—	569
Loss for the year	—	—	—	(920)	(920)	(13)	(933)
Other comprehensive income for the year	—	17	2	(99)	(80)	—	(80)
Total comprehensive income for the year	—	17	2	(1,019)	(1,000)	(13)	(1,013)
Dividends paid on ordinary shares (note 12)	—	—	—	(71)	(71)	—	(71)
Dividend paid to non-controlling interests	—	—	—	—	—	(8)	(8)
Issue of share capital	142	—	—	—	142	—	142
Acquisition through business combinations	—	—	—	—	—	686	686
On investment in Impala Holdings Limited	—	—	—	—	—	(14)	(14)
Shares subscribed for by non-controlling interests	—	—	—	—	—	1	1
At 31 December 2008	193	17	—	(570)	(360)	652	292

Statement of combined changes in equity

for the year ended 31 December 2007

	Share capital	Foreign currency translation reserve	Available for sale reserve	Retained earnings	Total	Non-controlling interests (note 14)	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2007	—	—	—	625	625	—	625
Loss for the year	—	—	—	(137)	(137)	—	(137)
Other comprehensive income for the year	—	—	(2)	32	30	—	30
Total comprehensive income for the year	—	—	(2)	(105)	(107)	—	(107)
Issue of share capital	51	—	—	—	51	—	51
At 31 December 2007	51	—	(2)	520	569	—	569

Notes to the combined financial statements

1. Accounting policies

(a) Basis of preparation

On 2 September 2009, Phoenix Group Holdings ("PGH") completed its acquisition of the Original Pearl Business ("OPB") through the acquisition of Opal Reassurance Limited, PGH (LCA) Limited (formerly Sun Capital Investments Limited), PGH (LCB) Limited (formerly Hera Investments One Limited), PGH (TC1) Limited (formerly Suncap Parma Topco Limited) and PGH (TC2) Limited (formerly TDR Parma Topco Limited) (collectively "the Acquired Companies"). The Acquired Companies between them owned the entire share capital of Pearl Group Holdings No.2 Limited (formerly Pearl Group Limited) ("PGH2") which through its subsidiaries carried out the trading operations of the OPB.

As the Acquired Companies do not constitute a legal group it is not permitted by IAS 27 *Consolidated and Separate Financial Statements*, to present consolidated financial information for OPB. Accordingly the OPB financial information, which has been prepared specifically for the purpose of the prospectus, is prepared on a basis that combines the results and assets and liabilities of the Acquired Companies and the entities which they, in aggregate, control (together the "OPB") by applying the principles underlying the consolidation procedures of IAS 27 for each of the three years to 31 December 2007, 2008, 2009 and as at those dates. Internal transactions within the OPB have been eliminated on combination.

The combined financial information has been prepared in accordance with the requirements of Commission Regulation (EC) 809/2004 and in accordance with this basis of preparation. The basis of preparation describes how the financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") except as described below.

IFRSs as adopted by the EU do not provide for the preparation of combined financial information, and accordingly in preparing the combined financial information certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 (Investment Reporting Standard applicable to public reporting engagements on historical financial information) issued by the UK Auditing Practices Board have been applied. The application of these conventions results in the following material departures from IFRSs as adopted by the EU. In other respects IFRSs as adopted by the EU have been applied.

As explained above, the historical financial information is prepared on a combined basis and therefore does not comply with the requirements of IAS 27.

The combined financial information does not constitute a set of general purpose financial statements under paragraph 7 of IAS 1 *Presentation of Financial Statements* and consequently there is no explicit and unreserved statement of compliance with IFRS as contemplated by paragraph 16 of IAS 1.

The combined financial statements have been prepared on a historical cost basis except for investment property, owner-occupied property, and those financial instruments and financial liabilities that have been measured at fair value.

The combined financial statements are presented in sterling (£) rounded to the nearest £ million except where stated.

The OPB presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement more than twelve months after the period end is presented in the notes.

Financial assets and financial liabilities are offset and the net amount reported in the statement of combined financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the combined income statement unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the OPB.

Basis of combination

The combined financial statements incorporate the results of the OPB which includes all subsidiaries of the Acquired Companies. The results of the subsidiaries are included from the date on which effective control was acquired up to the date control ceased to exist.

Subsidiaries are those entities in which the Acquired Companies directly or indirectly have an interest of more than one half of the voting rights or otherwise have power to govern the financial and operating policies of another entity. Where this is the case, the assets and liabilities of these entities are incorporated in full. The combined financial statements include collective investment schemes where the Acquired Companies exercise overall control. Certain of the collective investment schemes have non-coterminous period ends and are incorporated on the basis of additional financial statements prepared to the period end. The non-controlling interest in the collective investment schemes is classified as a liability and shown in the statement of combined financial position as net asset value attributable to unit holders.

Subsidiary undertakings are consolidated from the date that effective control is obtained by the Acquired Companies and are excluded from consolidation from the date they cease to be subsidiary undertakings.

The OPB has used the purchase method to account for the acquisition of subsidiary undertakings. The cost of an acquisition has been measured at the fair value of the consideration. Any excess of the cost of acquisition over the fair value of the net assets acquired has been treated as goodwill. Directly attributable acquisition costs are included within the cost of the acquisition, with the exception of costs directly related to the issuing of debt or equity securities which are included within the initial carrying amount of debt or equity securities where these are not held at fair value.

Non-controlling interests are stated at the initial amount attributed adjusted for the relevant share of subsequent changes in equity.

All significant inter-group transactions and balances, and unrealised profits arising from such transactions, have been eliminated.

First time adoption

In the preparation of the OPB combined financial statements, the Acquired Companies and certain of their subsidiaries have adopted IFRSs as adopted by the EU from 1 January 2007. In doing this, advantage has been taken of the exemption to not restate acquisitions prior to 1 January 2007.

A reconciliation explaining the impact of the adoption of IFRS for the combined financial statements of OPB has not been provided as no accounts have ever been prepared previously for the OPB combined businesses.

(b) Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the OPB business that typically require such estimates are insurance and investment contract liabilities, determination of the fair value of financial assets and liabilities, impairment tests for intangible assets, income taxes and pension benefit assets and liabilities.

Insurance and investment contract liabilities

Insurance and investment contract liability accounting is discussed in more detail in accounting policies (e) and (f) with further detail of the key assumptions made in determining insurance and investment contract liabilities included in note 38.

Fair value of financial assets and liabilities

The fair values of financial assets and liabilities are classified and accounted for as set out in accounting policies (r) and (g) respectively. Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities, without any deduction for transaction costs. These are categorised as Level 1 financial instruments and do not involve estimates. If prices are not readily determinable, fair value is determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes. Financial instruments valued where valuation techniques are based on observable market data at the period end are categorised as Level 2 financial instruments. Financial instruments valued where valuation techniques are based on non-observable inputs are categorised as Level 3 financial instruments. Level 2 and Level 3 financial instruments therefore involve the use of estimates.

Impairment of intangible assets

Intangible assets are subject to regular impairment reviews as detailed in accounting policy (n). Impairments are measured at the difference between the carrying value of a particular asset and its recoverable amount. Impairments are recognised in the combined income statement in the period in which they occur.

Income taxes

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets. Any judgements made, and uncertainties considered, in arriving at deferred tax balances in the financial statements are discussed in note 23.

The accounting policy for income taxes (both current and deferred taxes) is discussed in more detail in accounting policy (l).

Pensions benefit assets and liabilities

The valuation of pension benefit assets and liabilities is determined using actuarial valuations, which involves making assumptions about discount rates, expected return rates on assets, future salary increases, mortality rates and future pension increases. As defined benefit pension plans are long-term in nature, such assumptions are subject to significant uncertainty. Details of the key assumptions used are shown in note 27.

(c) Foreign currency transactions

Items included in the financial statements of each of the OPB's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The combined financial statements are presented in sterling, which is the OPB's presentation currency.

The results and financial position of all OPB entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the period end;
- income and expenses are translated at average exchange rates;
- all resulting exchange differences are recognised through the statement of combined comprehensive income; and
- cash flows are translated at average exchange rates.

Foreign currency transactions are translated into the functional currency of the transacting OPB entity using average exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the combined income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value through profit or loss are included in foreign exchange gains and losses. Translation differences on non-monetary items at fair value through profit or loss are reported as part of the fair value gain or loss.

(d) Classification of contracts

Contracts under which the OPB accepts significant insurance risk are classified as insurance contracts.

Contracts under which the transfer of insurance risk to the OPB from the policyholder is not significant are classified as investment contracts.

Some insurance and investment contracts contain a discretionary participation feature ("DPF"). This feature entitles the policyholder to additional discretionary benefits as a supplement to guaranteed benefits. Investment contracts with a DPF are recognised, measured and presented as insurance contracts.

(e) Insurance contracts and investment contracts with DPF

Under current IFRS requirements, insurance contracts and investment contracts with DPF are measured using accounting policies consistent with those adopted under previous Generally Accepted Accounting Principles ("GAAP"). Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

Insurance liabilities

The insurance contract liability for non participating non-linked business is calculated initially to comply with the requirements of the Prudential Sourcebook for Insurers issued by the Financial Services Authority ("FSA"), the UK Regulator. The liability for insurance contracts for business in the non profit fund is adjusted where necessary by removing excessively prudent margins required for statutory solvency purposes together with general contingency reserves and those reserves required only under the Prudential Sourcebook for Insurers.

Insurance contract liabilities for non participating business are calculated using either a net premium or gross premium method. Where a gross premium method is used, the liability includes allowance for prudent lapses. Negative policy values are allowed for individual policies:

- where there are no guaranteed surrender values; or
- in the periods where guaranteed surrender values do not apply even though guaranteed surrender values are applicable after a specified period of time.

The principal assumptions are given in note 38.

For participating business, the OPB follows the provisions of the UK Accounting Standard Board's FRS 27 *Life Assurance.* In accordance with these requirements, the liabilities under insurance contracts and investment contracts with DPF are calculated on the FSA realistic basis. The key aspects of this methodology are:

- liabilities to policyholders arising from with profit life assurance business are stated at the amount of the realistic value of the liabilities, adjusted to exclude the owners' share of projected future bonuses;
- acquisition costs are not deferred; and
- reinsurance recoveries are measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

The principal assumptions are given in note 38.

Present value of future profits ("PVFP") on non participating business in the with profit funds

For UK with profit life funds falling within the scope of the FSA realistic capital regime, and hence FRS 27, an amount may be recognised for the PVFP on non participating business written in a with profit fund where the determination of the realistic value of liabilities in that with profit fund takes account, directly or indirectly, of this value.

Where the value of future profits can be shown to be due to policyholders this amount is recognised as a reduction in the liability rather than as an intangible asset, and is then apportioned between the amounts that have been taken into account in the measurement of liabilities and other amounts which are shown as an adjustment to the unallocated surplus.

Where it is not possible to apportion the future profits on this non participating business to policyholders the PVFP on this business is recognised as an intangible asset and changes in its value are recorded as a separate item in the combined income statement.

The value of the PVFP is determined in accordance with the FSA's realistic capital regime. The principal assumptions used to calculate the PVFP are the same as those used in calculating the insurance contract liabilities given in note 38.

Embedded derivatives

Embedded derivatives, including options to surrender insurance contracts, that meet the definition of insurance contracts or are closely related to the host insurance contract, are not separately measured. All other embedded derivatives are separated from the host contract and measured at fair value through profit or loss.

Liability adequacy

At each reporting date, liability adequacy tests are performed to assess whether the insurance contract and investment contract with DPF liabilities are adequate. Current best estimates of future cash flows are compared to the carrying value of the liabilities. Any deficiency is charged to the combined income statement.

The OPB's accounting policies for insurance contracts meet the minimum specified requirements for liability adequacy testing under IFRS 4 *Insurance contracts*, as they allow for current estimates of all contractual cash flows and of related cash flows such as claims handling costs. Cash flows resulting from embedded options and guarantees are also allowed for, with any deficiency being recognised in the combined income statement.

Unallocated surplus

The unallocated surplus comprises the excess of the assets over the policyholder liabilities of the with profit business of the OPB's life operations. For the OPB's with profit funds, the amount included in the statement of combined financial position caption 'Unallocated surplus' represents amounts which have yet to be allocated to equity holders since the unallocated surplus attributable to policyholders has been included within liabilities under insurance contracts. The with profit funds are closed to new business and as permitted by IFRS 4, the whole of the unallocated surplus has been classified as a liability (either within insurance contract liabilities or unallocated surplus).

If the realistic value of liabilities to policyholders exceeds the value of the assets in the with profit fund, the unallocated surplus is valued at £nil.

(f) Investment contracts without DPF

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

The valuation of liabilities on unit linked contracts is based on the fair value of the related assets and liabilities. The financial liability is measured based on the carrying value of the assets and liabilities that are held to back the contract. The liability is the sum of the unit linked liabilities plus an additional amount to cover the present value of the excess of future policy costs over future charges.

Investment income and the movements in the fair value of investment contracts without DPF are included in the 'Change in investment contract liabilities' in the combined income statement.

(g) Financial liabilities

On initial recognition, financial liabilities are recognised when due and measured at the fair value of the consideration received less directly attributable transaction costs (with the exception of liabilities at fair value through profit or loss for which all transaction costs are expensed).

Subsequent to initial recognition, financial liabilities (except for liabilities under investment contracts and other liabilities designated at fair value through profit or loss) are measured at amortised cost using the effective interest method.

Financial liabilities are designated upon initial recognition at fair value through profit or loss when doing so results in more meaningful information because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the OPB's key management personnel.

(h) Borrowings

The majority of interest bearing borrowings are recognised initially at fair value less any attributable transaction costs. The difference between initial cost and the redemption value is amortised through the combined income statement over the period of the borrowing using the effective interest method.

Certain borrowings are designated upon initial recognition at fair value through profit or loss and measured at fair value where doing so provides more meaningful information due to the reasons stated above in the financial liabilities accounting policy. Transaction costs relating to borrowings designated upon initial recognition at fair value through profit or loss are expensed as incurred.

(i) Deposits from reinsurers

It is the OPB's practice to obtain collateral to cover certain reinsurance transactions, usually in the form of cash or marketable securities. Where cash collateral is available to the OPB for investment purposes, the investments are recognised as 'Financial assets' and the collateral repayable is recognised as 'Deposits received from reinsurers'.

(j) Net asset value attributable to unit holders

The net asset value attributable to unit holders represents the non-controlling interest in collective investment schemes where the OPB has a holding in excess of 50%. This interest is classified at fair value through profit or loss and measured at fair value, which is equal to the bid value of the number of units of the collective investment scheme not owned by the OPB.

(k) Obligations for repayment of collateral received

It is the OPB's practice to obtain collateral in stock lending transactions, usually in the form of cash or marketable securities. Where cash collateral is available to the OPB for investment purposes, the investments are recognised as 'Financial assets' and the collateral repayable is recognised as 'Obligations for repayment of collateral received'. The 'Obligations for repayment of collateral received' are measured at amortised cost, which in the case of cash is equivalent to cost.

(l) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the combined income statement except to the extent that it relates to items recognised in the statement of combined comprehensive income or the statement of combined changes in equity, in which case it is recognised in these statements.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the date of the statement of combined financial position together with adjustments to tax payable in respect of previous years.

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided in respect of temporary differences arising from the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the period end.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The tax charge is analysed between tax that is payable in respect of policyholders' returns and tax that is payable on owners' returns. This allocation is calculated based on an assessment of the effective rate of tax that is applicable to owners for the year.

(m) Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the combined income statement as incurred.

Defined benefit schemes

The net surplus or deficit (the economic surplus) in respect of the defined benefit pension schemes is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted. The discount rate is the yield at the period end on AA credit rated bonds that have maturity dates approximating to the terms of the OPB's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The economic surplus or deficit is subsequently adjusted to eliminate on consolidation the carrying value of insurance policies issued by OPB's entities to the defined benefit pension schemes (the reported surplus or deficit). A corresponding adjustment is made to the carrying values of insurance contracts liabilities and investment contracts liabilities.

The movement in the reported surplus/deficit is analysed between the service cost (recognised within administrative expenses in the combined income statement), the net interest gain or loss on the liabilities less the expected return on assets, including any reimbursement assets (recognised within net investment income in the combined income statement), curtailment gains/ losses and actuarial gains and losses (recognised in other comprehensive income). All actuarial gains and losses are recognised in full.

(n) Intangible assets

Goodwill

Business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is measured on initial recognition at cost. Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. It is tested for impairment annually or when there is evidence of possible impairment. Goodwill is not amortised. For impairment testing, goodwill is allocated to cash-generating units (life assurance and asset management). Goodwill is impaired when the recoverable amount is insufficient to support its carrying value.

Acquired in-force business

Insurance and investment contracts with and without DPF acquired in business combinations and portfolio transfers are measured at fair value at the time of acquisition. The difference between the fair value of the contractual rights acquired and obligations assumed and the liability measured in accordance with the OPB's accounting polices for such contracts is recognised as acquired in-force business.

Acquired in-force business is amortised over the estimated life of the contracts on a basis which recognises the emergence of the economic benefits.

An impairment review is performed whenever there is an indication of impairment. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the combined income statement. Acquired in-force business is also considered in the liability adequacy test for each reporting period.

Customer relationship and other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is reflected in the combined income statement in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the fair value of the intangible asset is less than its carrying value.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised.

(o) Property, plant and equipment

Owner-occupied property is stated at fair value, being the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. Owner-occupied property is depreciated over its estimated useful life, which is taken as fifty years, except where the residual value is greater than its carrying value in which case, no depreciation is charged to profit or loss. Land is not depreciated. Gains and losses on owner-occupied property are recognised in the statement of combined comprehensive income.

Plant and equipment is stated at cost less accumulated depreciation. Depreciation is charged to the combined income statement on a straight-line basis over the estimated useful lives.

(p) Investment property

Investment property is stated at fair value. Fair value is based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. Gains and losses arising from the change in fair value are recognised in the combined income statement.

(q) Investments in associates and joint ventures

Investments in associates and joint ventures that are held for investment purposes are accounted for under IAS 39 *Financial Instruments: Recognition and Measurement* as permitted by IAS 28 *Interests in Associates* and IAS 31 *Interests in Joint Ventures.* These are measured at fair value through profit or loss. There are no investments in associates and joint ventures which are of a strategic nature.

(r) Financial assets

Purchases and sales of financial assets are recognised on the trade date, which is the date that the OPB commits to purchase or sell the asset.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method.

Derivative financial instruments are classified as held for trading. They are recognised initially at fair value and subsequently are re-measured to fair value. Exchange-traded derivatives are valued at the published bid price, or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. The gain or loss on re-measurement to fair value is recognised in the combined income statement.

Equities, fixed and variable rate income securities and collective investment schemes are designated at fair value through profit or loss and accordingly are stated in the statement of combined financial position at fair value. They are designated at fair value through profit or loss because they are managed and evaluated on a fair value basis in accordance with the OPB's stated risk management policies to maximise returns to equity holders.

Invested cash held in collective investment schemes that are consolidated is recognised as a financial asset rather than cash and cash equivalents.

Impairment of financial assets

The OPB assesses at each period end whether a financial asset or group of financial assets held at amortised cost is impaired. The OPB first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

Fair value estimation

The fair value of financial instruments traded in active markets such as publicly traded securities and derivatives are based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. The fair value of investments that are not traded in an active market is determined using valuation techniques such as broker quotes, pricing models or discounted cash flow techniques. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument.

For units in unit trusts and shares in open-ended investment companies, fair value is by reference to published bid values. The fair value of receivables and floating rate and overnight deposits with credit institutions is their carrying value. The fair value of fixed interest bearing deposits is estimated using discounted cash flow techniques.

Stock lending

Financial assets that are lent under the OPB's stock lending programme do not qualify for derecognition from the statement of combined financial position as the OPB retains substantially all the risks and rewards of the transferred assets.

Collateral

The OPB receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, derivative contracts and reinsurance arrangements in order to reduce the credit risk of these transactions. The amount and type of collateral required where the OPB receives collateral depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash where the OPB has contractual rights to receive the cash flows generated is recognised as an asset on the statement of combined financial position with a corresponding liability for its repayment. Non-cash collateral received is not recognised on the statement of combined financial position, unless the counterparty defaults on its obligations under the relevant agreement.

Cash and non-cash collateral pledged where the OPB retains the contractual rights to receive the cash flows generated is not derecognised from the statement of combined financial position, unless the OPB defaults on its obligations under the relevant agreement, and therefore continues to be recognised in the statement of combined financial position within the appropriate asset classification.

(s) Reinsurance

The OPB cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Reinsurers' share of insurance contract liabilities are dependent on expected claims and benefits arising under the related reinsured policies.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the OPB may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the OPB will receive from the reinsurer. The impairment loss is recorded in the combined income statement.

Reinsurance premiums payable in respect of certain reinsured individual and group pensions annuity contracts are payable by quarterly instalments. Due to the period of time over which reinsurance premiums are payable under these arrangements, the reinsurance premiums and related creditor are discounted to present values using a pre-tax risk-free rate of return. The unwinding of the discount is included as a charge within the combined income statement.

Gains or losses on purchasing reinsurance are recognised in the combined income statement immediately at the date of purchase and are not amortised. They are the difference between the premiums ceded to reinsurers and the related change in the reinsurers' share of insurance contract liabilities.

(t) Deferred acquisition costs

Acquisition costs, comprising all direct and indirect costs arising from the conclusion of insurance and investment contracts are deferred as an explicit acquisition cost asset. This asset is amortised over the period in which the costs are expected to be recoverable out of margins from matching revenues from related policies and in accordance with the pattern of such margins. Deferred acquisition cost amortisation is presented within other acquisition costs in the combined income statement. At the end of each accounting period, deferred acquisition costs are reviewed for recoverability, by category, against future margins from the related policies in force at the period end.

(u) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement. Bank overdrafts that are repayable on demand and form an integral part of the OPB's cash management are deducted from cash and cash equivalents for the purpose of the statement of combined cash flows.

(v) Provisions and contingent liabilities

A provision is recognised when the OPB has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the OPB has a present legal or constructive obligation but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be reliably estimated, this is disclosed as a contingent liability.

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the expected economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

(w) Dividends

Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the OPB's owners. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting period end are dealt with as an event after the reporting period end.

Declared dividends are those that are appropriately authorised and are no longer at the discretion of the entity.

(x) Income recognition

Gross premiums

In respect of insurance contracts and investment contracts with DPF, premiums are accounted for on a receivable basis and exclude any taxes or duties based on premiums. Funds at retirement under individual pension contracts converted to annuities with the OPB are, for accounting purposes, included in both claims incurred and premiums within gross premiums written.

Reinsurance premiums

Outward reinsurance premiums are accounted for on a payable basis.

Fee and commission income

Fee and commission income relates to the following:

- fund management based fees, which are recognised as the services are provided;
- investment contract income – investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those periods. 'Front end' fees are charged on some non participating investment contracts. Where the non participating investment contract is measured at fair value, such fees which relate to the provision of investment management services are deferred and recognised as the services are provided; and
- other fees, which are recognised as the services are provided.

Net investment income

Net investment income comprises interest, dividends, rents receivable, net expected return on pension assets, fair value gains and losses on financial assets and investment property and impairment losses on loans and receivables.

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

Rental income from investment property is recognised in the combined income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

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

Other operating income

Other operating income comprises the general business result and other non-investment income which is recognised on an accruals basis.

(y) Benefits, claims and expenses recognition

Gross benefits and claims

Claims on insurance contracts and investment contracts with DPF reflect the cost of all claims arising during the period, including policyholder bonuses allocated in anticipation of a bonus declaration. Claims payable on maturity are recognised when the claim becomes due for payment and on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within insurance contract liabilities. Where claims are payable and the contract remains in force, the claim instalment is accounted for when due for payment. Claims payable include the costs of settlement.

Reinsurance claims

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

Finance costs

Interest paid is recognised in the combined income statement as it accrues and is calculated by using the effective interest method. Accrued interest is included within the carrying value of the interest bearing financial liability.

(z) Share capital

As these financial statements are presented on a combined rather than a fully consolidated basis, as set out in accounting policy (a), the combined share capital represents the share capital of all the Acquired Companies.

(aa) General business

The general insurance businesses have been closed to new business for a number of years and are in run off. The results are included in other operating income within the combined income statement. Provisions are made for the estimated cost of claims, including claims incurred but not reported after taking into account handling costs, anticipated inflation and settlement trends. Any difference between the estimated provision and subsequent settlement is included in the combined income statement in later years.

(bb) Segmental reporting

The OPB's results are analysed across two reportable segments: life assurance and asset management. The revenues generated in each reported segment are shown in the segmental information in note 3.

There are no differences between the measurement of the assets and liabilities reflected in the primary statements and that reported for the segments. A reconciliation between the reported segment revenues and expenses and the OPB's revenues and expenses is shown in note 3.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so.

(cc) Events after the reporting period

The financial statements are adjusted to reflect significant events that have a material effect on the financial results and that have occurred between the period end and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the period end. Events that are indicative of conditions that arise after the period end that do not result in an adjustment to the financial statements are disclosed.

2. Financial information

The International Accounting Standards Board ("IASB") has issued the following standards, amendments and interpretations which apply from the dates shown. The OPB has decided where permitted not to adopt any of these standards, amendments or interpretations in advance of their implementation date. The impact of adopting them is not expected to have a material effect on the results of the OPB:

- IFRS 3 *Business Combinations (Revised)* (2010). This converges International and US reporting requirements relating to business combinations;
- IFRS 9 *Financial Instruments* (2013). IFRS 9 is the first phase of the project to replace IAS 39 *Financial Instruments: Recognition and Measurement* and deals with the classification and measurement of financial assets, including some hybrid contracts;
- IAS 24 *Related Party Disclosures* (2011). This amends the definition of a related party and clarifies its intended meaning;
- IAS 27 *Consolidated and Separate Financial Statements (Revised)* (2010). This revises the accounting for non-controlling interests and the loss of control of subsidiaries;
- Annual improvements 2009, (2010). This makes a number of minor improvements to existing standards and interpretations;

- Embedded Derivatives (Amendments to IFRIC 9 and IAS 39) (2010). This clarifies the treatment of embedded derivatives; and
- IFRIC 17 *Distributions of Non-Cash Assets to Owners* (2010). IFRIC 17 provides guidance on how an entity should account for distributions of non-cash assets to its owners, other than in limited circumstances.

In addition, the following standards, amendments and interpretations have been issued but are not currently relevant to the OPB:

- IFRIC 18 *Transfers of Assets from Customers* (July 2009);
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (2011);
- Additional Exemptions for First-time Adopters (Amendments to IFRS 1) (2010);
- Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2) (2010);
- Classification of Rights Issues (Amendments to IAS 32) (2011); and
- Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14) (2011).

3. Segmental analysis

The OPB defines and presents segments based on the information which is provided to the Phoenix Life Holdings Limited Executive Committee.

An operating segment is a component of the OPB that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the OPB.

For management purposes, the OPB is organised into business units based on their products and services and has two reportable segments as follows:

- life assurance – this segment offers a wide range of whole life, term assurance and pension products; and
- asset management – this segment provides investment management services to the life companies within the OPB and to third parties, covering both retail and institutional investors.

Segment performance is evaluated based on profit or loss which in certain respects is measured differently from profit or loss in the combined financial statements. OPB financing (including finance costs) and owners' taxes are managed on a group basis and are not allocated to individual operating segments.

Inter-segment transactions are set on an arm's length basis in a manner similar to transactions with third parties. Segment results include those transfers between business segments which are then eliminated on consolidation.

Predominantly all revenues from external customers is sourced in the UK.

No revenue transaction with a single customer amounts to greater than 10% of the OPB's revenue.

Predominantly all non-current assets are located in the UK.

3.1. Segmental result

2009

	Life assurance	Asset management	Corporate	Eliminations	Total
	£m	**£m**	**£m**	**£m**	**£m**
Net premiums written from:					
External customers	1,595	—	—	—	1,595
Other segment	—	—	—	—	—
	1,595	—	—	—	1,595
Fees from:					
External customers	123	77	—	—	200
Other segment	—	72	—	(72)	—
	123	149	—	(72)	200
Net investment income:					
Recurring	4,477	—	78	—	4,555
Offset interest income on interest swaps against interest expenses	—	—	(36)	—	(36)
	4,477	—	42	—	4,519
Other operating income:					
Recurring	94	—	—	—	94
Non-recurring	38	—	—	—	38
	132	—	—	—	132
Net income	**6,327**	**149**	**42**	**(72)**	**6,446**
Net policyholder claims and benefits incurred:					
Recurring	(3,601)	—	—	—	(3,601)
Non-recurring	(78)	—	—	—	(78)
	(3,679)	—	—	—	(3,679)
Depreciation and amortisation:					
Depreciation of property, plant and equipment	(1)	(2)	—	—	(3)
Amortisation of acquired in-force business	(100)	—	—	—	(100)
Amortisation of other intangible assets	(4)	(6)	—	—	(10)
	(105)	(8)	—	—	(113)
Other operating expenses:					
Recurring	(1,790)	(113)	(41)	72	(1,872)
Non-recurring	(90)	(5)	(48)	—	(143)
	(1,880)	(118)	(89)	72	(2,015)
Total operating expense	**(5,664)**	**(126)**	**(89)**	**72**	**(5,807)**
Profit/(loss) before finance costs and tax	**663**	**23**	**(47)**	**—**	**639**
Finance costs	(112)	—	(387)	—	(499)
Offset interest income on interest swaps against interest expenses	—	—	36	—	36
	(112)	—	(351)	—	(463)
Profit/(loss) before tax	**551**	**23**	**(398)**	**—**	**176**
Tax attributable to policyholders' returns	—	—	—	—	—
Segmental result before the tax attributable to owners	**551**	**23**	**(398)**	**—**	**176**

2008

	Life assurance	Asset management	Corporate	Eliminations	Total
	£m	**£m**	**£m**	**£m**	**£m**
Net premiums written from:					
External customers	1,254	—	—	—	1,254
Other segment	—	—	—	—	—
	1,254	—	—	—	1,254
Fees from:					
External customers	117	63	—	—	180
Other segment	—	53	—	(53)	—
	117	116	—	(53)	180
Net investment income:					
Recurring	(2,583)	2	(6)	—	(2,587)
Non-recurring	(81)	—	—	—	(81)
Offset interest income on interest swaps against interest expenses	—	—	(1)	—	(1)
	(2,664)	2	(7)	—	(2,669)
Other operating income:					
Recurring	56	—	—	—	56
Non-recurring	18	—	—	—	18
	74	—	—	—	74
Net income	**(1,219)**	**118**	**(7)**	**(53)**	**(1,161)**
Net policyholder claims and benefits incurred:					
Recurring	(241)	—	—	—	(241)
Non-recurring	105	—	—	—	105
	(136)	—	—	—	(136)
Depreciation and amortisation:					
Depreciation of property, plant and equipment	(2)	—	—	—	(2)
Amortisation and impairment of acquired in-force business	(506)	—	—	—	(506)
Amortisation and impairment of other intangible assets	(2)	(53)	—	—	(55)
	(510)	(53)	—	—	(563)
Other operating expenses:					
Recurring	1,340	(89)	(10)	53	1,294
Non-recurring	(66)	(1)	(57)	—	(124)
	1,274	(90)	(67)	53	1,170
Total operating expense	**628**	**(143)**	**(67)**	**53**	**471**
Loss before finance costs and tax	**(591)**	**(25)**	**(74)**	**—**	**(690)**
Finance costs	(385)	—	(298)	—	(683)
Offset interest income on interest swaps against interest expenses	—	—	1	—	1
	(385)	—	(297)	—	(682)
Loss before tax	**(976)**	**(25)**	**(371)**	**—**	**(1,372)**
Tax attributable to policyholders' returns	106	—	—	—	106
Segmental result before the tax attributable to owners	**(870)**	**(25)**	**(371)**	**—**	**(1,266)**

2007

	Life assurance	Asset management	Corporate	Eliminations	Total
	£m	**£m**	**£m**	**£m**	**£m**
Net premiums written from:					
External customers	487	—	—	—	487
Other segment	—	—	—	—	—
	487	—	—	—	487
Fees from:					
External customers	57	—	—	—	57
Other segment	—	15	—	(15)	—
	57	15	—	(15)	57
Net investment income:					
Recurring	1,007	—	21	—	1,028
Non-recurring	92	—	—	—	92
	1,099	—	21	—	1,120
Other operating income	8	—	—	—	8
Net income	**1,651**	**15**	**21**	**(15)**	**1,672**
Net policyholder claims and benefits incurred	(1,159)	—	—	—	(1,159)
Other operating expenses:					
Recurring	(432)	(14)	—	15	(431)
Non-recurring	(4)	—	—	—	(4)
	(436)	(14)	—	15	(435)
Total operating expense	**(1,595)**	**(14)**	**—**	**15**	**(1,594)**
Profit/(loss) before finance costs and tax	**56**	**1**	**21**	**—**	**78**
Finance costs	(176)	—	(68)	—	(244)
(Loss)/profit before tax	**(120)**	**1**	**(47)**	**—**	**(166)**
Tax attributable to policyholders' returns	71	—	—	—	71
Segmental result before the tax attributable to owners	**(49)**	**1**	**(47)**	**—**	**(95)**

3.2. Reconciliation of operating profit/(loss) before adjusting items to the segmental result

2009

	Life assurance	Asset management	Corporate	Eliminations	Total
	£m	**£m**	**£m**	**£m**	**£m**
Operating profit/(loss) before adjusting items	469	34	(41)	—	462
Investment return variances and economic assumption changes on long-term business	386	—	—	—	386
Variance on owners' funds	(79)	—	42	—	(37)
Amortisation of acquired in-force business	(91)	—	—	—	(91)
Amortisation of other intangible assets	(4)	(6)	—	—	(10)
Non-recurring items	(130)	(5)	(48)	—	(183)
Finance costs attributable to owners	—	—	(351)	—	(351)
Segmental result before the tax attributable to owners	**551**	**23**	**(398)**	**—**	**176**

Non-recurring items include:

- a charge of £82 million related to the court-approved Guaranteed Annuity Option Compromise scheme for Phoenix & London Assurance Limited. This removed longevity risk from the business whilst providing immediate policyholder cash enhancements and resulted in a charge recognised in the combined income statement as a change in insurance contract liabilities and administrative expenses of £78 million and £4 million respectively;
- £44 million of acquisition related expenditure incurred by OPB; and
- other non-recurring items of £57 million include £27 million of costs associated with the life assurance segment site rationalisation and associated staff reductions and the OPB's transformation programme with its outsourcers.

2008

	Life assurance	Asset management	Corporate	Eliminations	Total
	£m	£m	£m	£m	£m
Operating profit before adjusting items	549	29	14	—	592
Investment return variances and economic assumption changes on long-term business	(832)	—	—	—	(832)
Variance on owners' funds	(78)	—	(31)	—	(109)
Amortisation and impairment of acquired in-force business	(461)	—	—	—	(461)
Amortisation and impairment of other intangible assets	(2)	(53)	—	—	(55)
Non-recurring items	(24)	(1)	(57)	—	(82)
Finance costs attributable to owners	(22)	—	(297)	—	(319)
Segmental result before the tax attributable to owners	**(870)**	**(25)**	**(371)**	**—**	**(1,266)**

Non-recurring items include:

- at 31 December 2007, the OPB held a 25.9% equity investment in Resolution plc via a 20.1% holding carried by Pearl Assurance plc ("Pearl") and a 5.8% stake carried by PGH2. In 2008, Impala Holdings Limited ("Impala") acquired these shares from Pearl and PGH2 at £7.20 per share as part of its acquisition of Resolution plc. However, the combined financial position statement follows the rules of piecemeal acquisition accounting and reports a total fair value consideration for Resolution plc. Because such fair value consideration comprises the price paid externally by OPB, previous fair value movements on revaluations of the investment are reversed. The reversal of previously recognised fair value gains in the combined income statement resulted in a non-recurring loss of £83 million (net of stamp duty cost);
- costs associated with the life assurance segment site rationalisation and associated staff reductions and the Group's transformation programme with its outsourcers of £39 million (after amounts on-charged to Royal London in respect of benefits related to the on-sold Resolution plc assets); and
- the above expenses were partially offset by non-recurring assumption changes in the life assurance segment related to self employed retirement plans of approximately £59 million.

2007

	Life assurance	Asset management	Corporate	Eliminations	Total
	£m	£m	£m	£m	£m
Operating profit before adjusting items	281	1	25	—	307
Investment return variances and economic assumption changes on long-term business	(428)	—	—	—	(428)
Variance on owners' funds	23	—	(4)	—	19
Non-recurring items	88	—	—	—	88
Finance costs attributable to owners	(13)	—	(68)	—	(81)
Segmental result before the tax attributable to owners	**(49)**	**1**	**(47)**	**—**	**(95)**

Non-recurring items include an £83 million gain in relation to fair value gains on the OPB's investment in Resolution plc as discussed above.

3.3. Investment return variances and economic assumption changes

The long-term nature of much of the OPB's operations means that, for internal performance management, the effects of short-term economic volatility are treated as non operating items. The OPB focuses instead on an operating profit measure that incorporates an expected return on investments supporting its long-term business. This note explains the methodology behind this.

3.3.1. Life assurance business

Operating profit for life assurance business is based on expected investment returns on financial investments backing owners' and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities. Operating profit includes the effect of variance in experience for non-economic items, for example mortality, persistency and expenses, and the effect of changes in non-economic assumptions. Changes due to economic items, for example market value movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit.

The movement in liabilities included in operating profit reflects both the change in liabilities due to the expected return on investments and the impact of experience variances and assumption changes for non-economic items. The effect of differences between actual and expected economic experience on liabilities, and changes to economic assumptions used to value liabilities, are taken outside operating profit. For many types of long-term business, including unit linked and with profit funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. For other long-term business the profit impact of economic volatility depends on the degree of matching of assets and liabilities, and exposure to financial options and guarantees.

The investment variances and economic assumption changes excluded from the long-term business operating profit reflects the impact of changes in credit spreads on corporate bonds and equity, property and yield movements and are as follows:

	2009	2008	2007
	£m	£m	£m
Investment return variances and economic assumption changes on long-term business	386	(832)	(428)

3.3.2. Owners' funds

For non long-term business including owners' funds, the total investment income, including realised and unrealised gains, is analysed between a calculated longer-term return and short-term fluctuations.

The variances excluded from operating profit in relation to owners' funds are as follows:

	2009	2008	2007
	£m	£m	£m
Variance on owners' funds	37	(109)	19

3.3.3. Calculation of the long-term investment return

The expected return on investments for both owner and policyholder funds is based on opening economic assumptions applied to the funds under management at the beginning of the reporting period. Expected investment return assumptions are derived actively, based on market yields on risk-free fixed interest assets at the start of each financial year. The same margins are applied on a consistent basis across the OPB to gross risk-free yields, to obtain investment return assumptions for equities and properties.

The principal assumptions underlying the calculation of the longer-term investment return are:

	2009	2008	2007
	%	%	%
Equities	6.3	7.2	7.2
Property	5.8	6.7	6.7
Gilts (15-year gilt)	3.7	4.6	4.6
Other fixed interest (15-year gilt plus 0.6%)	4.3	5.2	5.2

3.4. Segmental total assets and total liabilities

2009

	Life assurance	Asset management	Corporate	Total
	£m	£m	£m	£m
Total assets	75,808	258	—	76,066
Total liabilities	(71,421)	(118)	(3,637)	(75,176)

2008

	Life assurance	Asset management	Corporate	Total
	£m	£m	£m	£m
Total assets	79,641	252	135	80,028
Total liabilities	(75,740)	(115)	(3,881)	(79,736)

2007

	Life assurance	Asset management	Corporate	Total
	£m	£m	£m	£m
Total assets	30,596	15	81	30,692
Total liabilities	(29,231)	(11)	(881)	(30,123)

4. Fees

	2009	2008	2007
	£m	£m	£m
Fund management based fees	77	63	—
Investment contract income	121	109	57
Other	2	8	—
	200	180	57

5. Net investment income

	2009	2008	2007
	£m	£m	£m
Investment income			
Interest income on loans and receivables	74	47	—
Interest income on financial assets designated at fair value through profit or loss on initial recognition	2,341	2,411	1,165
Dividend income	574	460	92
Rental income	119	89	7
Net expected return on pension asset	(26)	7	15
	3,082	3,014	1,279
Fair value gains/(losses)			
Impairment losses on loans and receivables	—	(95)	—
Reversal of impairment losses on loans and receivables	95	—	—
Financial assets at fair value through profit or loss			
Held for trading – derivatives	(632)	108	34
Designated upon initial recognition	2,024	(5,226)	(246)
Investment property	(14)	(469)	53
	1,473	(5,682)	(159)
Net investment income	4,555	(2,668)	1,120

6. Other operating income

	2009	2008	2007
	£m	£m	£m
General business result	2	6	—
Income under Royal London transitional services agreement	48	41	—
Insurance claim	11	—	—
Sale and purchase agreement indemnity	35	—	—
Other income	36	27	8
	132	74	8

7. Acquisition costs

	2009	2008	2007
	£m	£m	£m
Acquisition costs paid	19	15	—
Amortisation of deferred acquisition costs	4	4	7
	23	19	7

8. Employee costs

	2009	2008	2007
	£m	£m	£m
Wages and salaries	139	137	29
Social security contributions	12	11	3
Other pension costs	9	8	3
	160	156	35

	2009	2008	2007
	number	number	number
Average number of persons employed			
Life assurance	931	1,113	181
Asset management	522	504	44
	1,453	1,617	225

The average number of employees in 2008 has been presented for the period following the Resolution plc acquisition on 1 May 2008. For the period prior to this in 2008 the average number of employees was 250 (life assurance: 183, asset management: 67).

9. Auditors' remuneration

The remuneration of the auditors of the OPB, including their associates, in respect of services supplied to entities included in the combined financial statements was £8.9 million (2008: £5.8 million, 2007: £1.2 million). No services were provided to associated pension schemes.

10. Finance costs

	2009	2008	2007
	£m	£m	£m
Interest expense:			
On borrowings at amortised cost	311	591	242
On borrowings at fair value through profit or loss	50	1	—
On debt issue costs	138	91	2
	499	683	244
Attributable to:			
– policyholders	112	385	176
– owners	387	298	68
	499	683	244

11. Tax credit

(a) Current year tax credit

	2009	2008	2007
	£m	£m	£m
Current tax:			
UK Corporation tax	24	48	22
Overseas tax	10	11	1
	34	59	23
Adjustment in respect of prior years	17	(126)	(34)
	51	(67)	(11)
Deferred tax:			
(Origination)/reversal of temporary differences			
On non profit surpluses	(90)	(67)	2
On amortisation of acquired in-force business	(35)	(175)	—
On profit arising from the changes in assumptions used for determining insurance liabilities in accordance with PS 06/14	(8)	(91)	(2)
Capital allowances in excess of depreciation	4	(14)	(5)
Pension scheme movements	10	6	7
Movement in unrealised chargeable gains	—	(85)	(31)
On provisions for future expenditure	(20)	(5)	—
Utilisation of tax losses	98	70	9
Other	—	(2)	—
Recognition of previously unrecognised tax loss	(52)	6	—
Write down of deferred tax assets	—	1	—
Tax losses arising in the current year carried forward	(6)	(16)	2
	(99)	(372)	(18)
Total tax credit	(48)	(439)	(29)
Attributable to:			
– policyholders	—	(106)	(71)
– owners	(48)	(333)	42
	(48)	(439)	(29)

The OPB, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK life assurance policyholder earnings is included in income tax expense. The tax (expense)/benefit attributable to policyholder earnings was £(1) million (2008: £84 million, 2007: £70 million).

(b) Tax (credited)/charged to other comprehensive income

	2009	2008	2007
	£m	£m	£m
Deferred tax on actuarial (losses)/gains of defined benefit schemes	(12)	(64)	11

(c) Reconciliation of tax credit

	2009	2008	2007
	£m	£m	£m
Profit/(loss) before tax	176	(1,372)	(166)
Policyholder tax	—	106	71
Profit/(loss) after policyholder tax	176	(1,266)	(95)
Tax at standard UK rate of 28% (2008: 28.5%, 2007: 30%)	49	(361)	(29)
Net tax losses on corporate restructuring not matched in accounts	(25)	—	—
Untaxed income	(18)	(31)	(2)
Disallowable expenses	18	10	3
Adjustment to tax charge in respect of prior years	17	(126)	(34)
Non-taxable unrealised losses/(gains)	—	134	(25)
(Decrease)/increase in deferred tax on movement in non profit surplus	(90)	(67)	2
Impact of tax on acquired in-force amortisation at less than 28%	—	(5)	—
Policyholder tax calculation methodology	21	85	56
Current taxation losses surrendered for £nil value	—	2	4
Current year losses not valued	5	14	7
Profits taxed at rates other than 28% (2008: 28.5%, 2007: 30%)	(20)	26	60
Recognition/utilisation of previously unrecognised losses	(11)	(25)	—
Other	6	11	—
Owners' tax (credit)/charge	(48)	(333)	42
Policyholder tax credit	—	(106)	(71)
Total tax credit for the year	(48)	(439)	(29)

12. Dividends on ordinary shares

	2009	2008	2007
	£m	£m	£m
PGH (LCA) Limited:			
Interim dividend for 2009 at £nil per £1 share (2008: £6.12 million per £1 share, 2007: £nil per £1 share)	—	61	—
PGH (LCB) Limited:			
Interim dividend for 2009 at £nil per £1 share (2008: £1.67 million per £1 share, 2007: £nil per £1 share)	—	10	—

None of Opal Reassurance Limited, PGH (TCI) Limited or PGH (TC2) Limited have paid any dividends.

13. Share capital

As these financial statements are presented on a combined rather than a fully consolidated basis, as set out in note 1, the combined share capital represents the share capital of all the Acquired Companies.

14. Non-controlling interests

	Perpetual Reset Capital Securities	UK Commercial Property Trust Limited	Total
	£m	£m	£m
At 1 January 2009	503	149	652
Profit for the year	24	23	47
Dividends paid	—	(14)	(14)
Effect of share transactions	—	43	43
At 31 December 2009	527	201	728

	Perpetual Reset Capital Securities	UK Commercial Property Trust Limited	Total
	£m	£m	£m
At 1 January 2007 and 1 January 2008	—	—	—
Acquisition through business combinations	500	186	686
On investment in Impala Holdings Limited	(14)	—	(14)
Profit/(loss) for the year	17	(30)	(13)
Dividend paid	—	(8)	(8)
Effect of share transactions	—	1	1
At 31 December 2008	503	149	652

(a) Perpetual Reset Capital Securities

Pearl Group Holdings (No. 1) Limited ("PGH1") has in issue £500 million of Perpetual Reset Capital Securities ("the Notes") which are admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange ("LSE").

The Notes are unsecured obligations of PGH1 and are subordinate to the claims of senior creditors. Payments in respect of the Notes are conditional upon PGH1 being solvent at the time of payment and immediately following such payment.

The Notes have no fixed maturity date and interest payments may be deferred at the option of PGH1; accordingly the Notes meet the definition of equity for financial reporting purposes. The Notes also meet the conditions for Innovative Tier 1 capital treatment in the calculation of the Group Capital Resources under the rules of the FSA. As the Notes are not directly held by the OPB, these are disclosed as a non-controlling interest in the combined financial statements.

The Notes may be redeemed at par at the option of PGH1 on the first reset date of 25 April 2016, or on any coupon payment date thereafter. Redemption is subject to the agreement of the FSA. In certain circumstances PGH1 has the right to substitute the Notes or to redeem the Notes before the first reset date.

Coupons are payable annually in arrears on 25 April, at the rate of 6.5864% per annum, until the first reset date. Thereafter coupons are payable semi-annually at 2.73% per annum over the then prevailing offered rate for six-month sterling deposits. The consent of certain Lenders is required to enable the payment of Coupons due in 2010 and thereafter.

If PGH1 opts to defer a coupon payment, then PGH1 has the option to either leave the coupon outstanding or satisfy the deferred coupon payment by the issue of securities ("ACSM instruments") by either PGH1 or a special purpose subsidiary of PGH1 established for the purpose of issuing ACSM instruments and which are guaranteed by PGH1. The obligations of PGH1 in respect of such securities, or if applicable, guarantee will be subordinated to and rank or be expressed to rank junior to the Notes as to rights to payments of interest and participation in the assets of PGH1 in a winding up and shall comply with the then current requirements of the FSA in relation to Tier 1 Capital. ACSM instruments will in the first instance be offered to related parties (as defined in the Terms and Conditions of the Notes as amended by the Supplemental Trust Deed dated 30 July 2008) and to third parties if not purchased by related parties. In the event that neither such related parties nor third parties will purchase the required ACSM instruments then PGH2 is required to use its best endeavours to raise such funds as are deemed necessary to purchase the required amounts of ACSM instruments.

For so long as a deferred coupon payment has not been satisfied PGH1 may not declare, pay or distribute a dividend on any of its securities in issue ranking junior to the Notes including the ordinary shares of PGH1 or any parity securities or, except in particular circumstances, redeem, purchase or otherwise acquire any of its securities in issue ranking junior to the Notes, including its ordinary shares or any parity securities.

On 25 March 2009, the Board of PGH1 gave notice to the holders of the Notes of its decision to defer the coupon payment on the Notes at the next payment date of 25 April 2009 and PGH1 indicated that it had no present intention to initiate the ACSM.

On 23 March 2010, PGH1 gave notice to the holders of the Notes of its decision to defer the coupon on the Notes which would otherwise have been due for payment on 25 April 2010. PGH1 announced that if certain amending proposals were agreed by the Noteholders this notice would be withdrawn and the 2010 coupon would be paid in full on the first business day after the payment date of 25 April 2010; in addition the deferred 2009 coupon would be paid by 31 December 2010. These amending proposals were agreed by the Noteholders on 22 April 2010 and the 2010 coupon paid on 26 April 2010. Further information on this is given in note 45.

(b) UK Commercial Property Trust Limited ("UKCPT")

UK Commercial Property Trust Limited is a property investment subsidiary which is domiciled in Guernsey and listed on the LSE.

15. Liabilities under insurance contracts

	Gross liabilities 2009	Reinsurers' share 2009
	£m	£m
Life assurance business:		
Insurance contracts	38,965	2,860
Investment contracts with DPF	11,326	—
	50,291	2,860
Amount due for settlement/recovery after 12 months	40,151	2,722

	Gross liabilities 2008	Reinsurers' share 2008
	£m	£m
Life assurance business:		
Insurance contracts	40,433	2,749
Investment contracts with DPF	12,175	—
	52,608	2,749
Amount due for settlement/recovery after 12 months	35,717	2,455

	Gross liabilities 2007	Re-insurers' share 2007
	£m	£m
Life assurance business:		
Insurance contracts	12,064	10
Investment contracts with DPF	6,894	—
	18,958	10
Amount due for settlement/recovery after 12 months	11,028	10

	Gross liabilities 2009	Reinsurers' share 2009
	£m	£m
At 1 January	52,608	2,749
Premiums	1,666	71
Claims	(5,984)	(189)
Other changes in liabilities	2,190	234
Foreign exchange adjustments	(189)	(5)
At 31 December	50,291	2,860

	Gross liabilities 2008	Reinsurers' share 2008
	£m	£m
At 1 January	18,958	10
Acquisition through business combinations	38,551	2,832
Premiums	1,330	76
Claims	(5,640)	(112)
Other changes in liabilities	(803)	(57)
Foreign exchange adjustments	212	—
At 31 December	52,608	2,749

	Gross liabilities 2007	Reinsurers' share 2007
	£m	£m
At 1 January	19,958	30
Premiums	491	4
Claims	(2,185)	(2)
Other changes in liabilities	694	(22)
At 31 December	18,958	10

16. Unallocated surplus

	2009	2008	2007
	£m	£m	£m
At 1 January	592	311	355
Acquisition through business combinations	—	623	—
Transfer from/(to) income statement	129	(342)	(44)
At 31 December	721	592	311

17. Borrowings

	2009	2008	2007
	£m	£m	£m
Carrying value			
Debenture loans			
Limited recourse bonds 2012 7.39% (note a)	41	54	70
Limited recourse bonds 2022 7.59% (note a)	110	119	118
Unsecured loan notes (note b)	18	28	—
£200 million 7.25% unsecured subordinated loans (note c)	156	152	—
Axial Fixed Income A loan (note d)	773	832	—
Axial Fixed Income B loan (note e)	15	15	—
£2,260 million syndicated loan (note f)	2,192	2,260	—
£80 million facility agreement (note g)	42	—	—
£309 million PIK notes and facility (note h)	—	332	—
£100 million PIK notes and facility (note h)	102	—	—
£209 million PIK notes and facility (note h)	254	—	—
£905 million syndicated loan (note i)	—	769	813
£75 million secured loan note (note i)	70	—	—
£425 million loan facility (note i)	399	—	—
£325 million loan note (note i)	325	—	—
£31.8 million loan (note j)	—	—	32
£16.8 million loan (note k)	17	—	—
£17 million loan (note l)	15	—	—
	4,529	4,561	1,033
Refinancing loan (note m)	258	277	328
	4,787	4,838	1,361
Amount due for settlement after 12 months	4,683	4,475	946

	2009	2008	2007
	£m	£m	£m
Fair value			
Debenture loans			
Limited recourse bonds 2012 7.39% (note a)	45	60	70
Limited recourse bonds 2022 7.59% (note a)	93	146	121
Unsecured loan notes (note b)	18	28	—
£200 million 7.25% unsecured subordinated loans (note c)	156	108	—
Axial Fixed Income A loan (note d)	751	708	—
Axial Fixed Income B loan (note e)	14	9	—
£2,260 million syndicated loan (note f)	2,260	2,260	—
£80 million facility agreement (note g)	42	—	—
£309 million PIK notes and facility (note h)	—	123	—
£100 million PIK notes and facility (note h)	102	—	—
£209 million PIK notes and facility (note h)	21	—	—
£905 million syndicated loan (note i)	—	544	813
£75 million secured loan note (note i)	70	—	—
£425 million loan facility (note i)	399	—	—
£325 million loan note (note i)	75	—	—
£31.8 million loan (note j)	—	—	32
£16.8 million loan (note k)	17	—	—
£17 million loan (note l)	15	—	—
	4,078	3,986	1,036
Refinancing loan (note m)	258	277	328
	4,336	4,263	1,364

Debenture loans

(a) In 1998, NPI Limited ("NPI") raised £260 million of capital through the securitisation of embedded value on a block of existing unit linked and unitised with profit life and pension policies. Following the demutualisation of NPI, these were transferred to National Provident Life Limited ("NPLL"). The bonds are split between two classes, which rank *pari passu*. The £140 million 7.39% class Al limited recourse bonds with an outstanding principal of £42 million (2008: £55 million, 2007: £71 million) have an average remaining life of 2 years maturing in 2012. The £120 million 7.59% limited recourse bonds with an outstanding principal of £120 million (2008: £120 million, 2007: £120 million) have an average remaining life of 9 years maturing in 2022. NPLL has provided collateral of £88 million (2008: £102 million, 2007: £146 million) to provide security to the holders of the NPLL recourse bonds in issue.

(b) Unsecured loan notes of £72 million were issued by Impala at par on 14 May 2008 at an interest rate of LIBOR minus 1% per annum with a final maturity date of 2012. As at 31 December 2009, £54 million (2008: £44 million) of these loan notes had been repaid and £18 million (2008: £28 million) were outstanding.

(c) Scottish Mutual Assurance Limited ("SMA") issued £200 million 7.25% undated, unsecured subordinated loan notes on 23 July 2001. The earliest repayment date of the notes is 25 March 2021 and thereafter on each fifth anniversary so long as the notes are outstanding. On 1 January 2009, as part of a Part VII transfer, these loan notes were transferred into the shareholder fund of Phoenix Life Limited ("PLL"). PLL has entered into interest rate swap agreements with Abbey National Treasury Services plc, the effect of which is to convert the fixed interest expense on the notes to a floating rate expense. In the event of the winding-up of PLL, the right of payment under the notes is subordinated to the rights of the higher-ranking creditors (principally policyholders). OPB acquired these loan notes as part of the acquisition of the Resolution plc business and they were recognised at their fair value.

(d) On 3 June 2008, Axial Fixed Income Opportunities S.a.r.l. issued A loans consisting of € 459,886,325; £39,480,573 and US$ 288,125,702. On 13 June 2008, Axial Fixed Income Opportunities S.a.r.l. issued further A loans of £128,401,000 and on 11 July 2008, Axial Fixed Income Opportunities S.a.r.l. issued further A loans of US$ 29,780,400. These loans accrue interest at LIBOR plus 125 bps and mature in May 2016.

(e) On 3 June 2008, Axial Fixed Income Opportunities S.a.r.l. issued B loans consisting of € 9,397,311; £3,015,429 and US$ 4,476,558. These loans accrue a fixed interest rate of 0.1% plus a variable profit related element and mature in May 2016.

(f) On 14 May 2008, PGH (LC1) Limited and PGH (LC2) Limited jointly obtained a £2,260 million loan facility from a syndicate of external banks (the "Impala Facility"). This facility was split into Tranche loans A, B and C of £1,275 million, £492.5 million and £492.5 million respectively. Following a period of negotiation the terms of this facility were subsequently amended on 2 September 2009, to the following:

- Tranche A loan of £1,275 million is repayable over the period from 30 April 2011 to 30 November 2014 and attracts interest at LIBOR plus a cash margin of 1.00% and a PIK margin of £1.00% for the first four years, and LIBOR plus a cash margin of 2.50% for the subsequent years;
- Tranche B loan of £492.5 million is repayable on 30 November 2015 and attracts interest at LIBOR plus a cash margin of 1.25% and a PIK margin of 0.75% for the first four years, and LIBOR plus a cash margin of 3.25% for the subsequent years; and
- Tranche C loan of £492.5 million is repayable on 30 November 2016 and attracts interest at LIBOR plus a cash margin of 1.75% and a PIK margin of 0.25% for the first four years and LIBOR plus a cash margin of 3.75% for the subsequent years.

Fees of £74 million were incurred on these negotiations and have been deferred into the amortised cost carrying value of this liability.

The borrowings under the £2,260 million facility are secured by:

- first fixed and floating charges over all the assets and undertakings of PGH (LC1) Limited and PGH (LC2) Limited (including their respective 12.5% shareholding in Impala, all real estate, book debts, bank accounts, investments and other assets); and
- a limited recourse share charge granted by PGH2 over its 75% shareholding in Impala.

(g) In 2008, UKCPT entered into an £80 million revolving loan facility agreement with Lloyds TSB. This loan accrues interest at LIBOR plus a variable margin of 0.50% to 0.70% per annum.

The lender holds a floating charge over certain assets of UKCPT and its subsidiaries. The repayment date for this facility is 19 June 2015.

(h) On 14 May 2008, PGH (MCI) Limited issued PIK notes for the value of £154.5 million to Royal London and PGH (MC2) Limited obtained a £154.5 million PIK facility from Royal London. Interest accrued at LIBOR plus a margin of 5.5% and had a final maturity date of 31 December 2017. On 2 September 2009, £209 million in aggregate, plus accrued interest of the original PIK notes were assigned to PGH in exchange for the issue of 1.5 million shares and 12.36 million warrants. The terms of the PIK notes and facility were also amended with interest accruing at LIBOR plus a margin of 2.0% unless an election is made by PGH (MCI) Limited or PGH (MC2) Limited to capitalise the interest, in which case the margin increases to 3.5%. In December 2009, interest of £2 million and £4 million respectively was capitalised on the PIK notes and facility. The final maturity date on the PIK notes and facility is 30 June 2019.

(i) On 24 November 2006, PGH (LCA) Limited and PGH (LCB) Limited jointly became a party to a £905 million loan facility from a syndicate of external banks. On 2 September 2009, this facility was restructured as follows:

- £75 million of the existing facility was converted into two £37.5 million secured C loan notes repayable after 15 years and attracting interest at LIBOR plus a margin of 1.00%;

- £325 million of the existing facility was assigned to PGH from the lending banks for consideration of £75 million, with a maturity date of 30 June 2016, attracting interest at LIBOR plus a margin of 1.25%; and
- the terms of the remaining £425 million outstanding under the existing facility were amended and the facility is repayable over the period from 30 June 2011 to 30 June 2016, attracting interest at LIBOR plus a margin of 1.25%.

The borrowings under the £425 million facility are secured by first fixed and floating charges over all of the assets and undertakings of PGH (LCA) Limited and PGH (LCB) Limited (including their respective 50% shareholdings in Phoenix Life Holdings Limited ("PLHL"), all real estate, book debts, bank accounts, investments and other assets).

(j) The £31.8 million loan was due to Henderson Finance, a subsidiary undertaking of Henderson Group plc. The loan was repaid on 12 April 2008.

(k) £16.8 million loan note from PGH incurring interest at LIBOR plus a margin of 1.25%, which is capitalised, and matures on 30 June 2019.

(l) £17 million loan note from PGH which accrues interest at LIBOR plus a margin of 1.25% and matures on 30 June 2016.

Refinancing loan

(m) The refinancing loan from Abbey National plc relates to the sale of Extra-Income Plan policies that Abbey National plc finances to the value of the associated property reversions. As part of the arrangement Abbey National plc receive an amount calculated by reference to the movement in the Halifax House Price Index, and NPLL and NPI have undertaken to indemnify Abbey National plc against profits or losses arising from mortality or surrender experience which differs from the basis used to calculate the reversion amount. Repayment will be on a policy-by-policy basis and is expected to occur over the next 10 to 20 years.

18. Deposits received from reinsurers

	2009	2008	2007
	£m	£m	£m
Carrying value:			
At 31 December	431	483	—
Amount due for settlement after 12 months	394	456	—

	2009	2008	2007
	£m	£m	£m
Fair value:			
At 31 December	431	483	—

In addition to receiving the cash collateral set out above, it is also the OPB's practice to obtain collateral in the form of marketable securities. This collateral is held on behalf of the OPB and is not recognised in the statement of combined financial position as either an asset or an associated liability as the OPB is not permitted to sell or re-pledge the collateral in the absence of default. The total value of the collateral held under such arrangements in respect of reinsurance treaties was £1,846 million (2008: £1,717 million, 2007: £nil).

19. Derivatives

The OPB purchases derivative financial instruments in connection with the management of its insurance contract and investment contract liabilities based on the principles of reduction of risk and efficient portfolio management.

The fair values of derivative financial instruments are as follows:

	2009 Assets	2009 Liabilities	2008 Assets	2008 Liabilities	2007 Assets	2007 Liabilities
	£m	£m	£m	£m	£m	£m
Forward currency	189	181	136	406	27	99
Credit default options	4	29	141	15	25	6
Interest rate swaps	1,683	1,430	2,932	2,270	390	189
Swaptions	285	—	653	—	147	—
Inflation swaps	20	2	108	485	14	—
Total return bond swaps	27	—	19	3	1	8
Equity options	174	—	17	17	9	9
Stock index futures	1,141	1,177	391	421	—	—
Other	—	—	14	7	—	—
	3,523	2,819	4,411	3,624	613	311

The amount recoverable after one year is £2,126 million (2008: £3,666 million, 2007: £552 million). The amount payable after one year is £1,378 million (2008: £2,811 million, 2007: £195 million).

Certain cash collateral on derivatives is available to the OPB for investment purposes and is therefore recognised as a financial asset and a liability, recorded as 'Obligations for repayment of collateral received' in the statement of combined financial position. At 31 December 2009, the amount of collateral recognised as a financial asset and 'Obligations for repayment of collateral received' amounted to £1,041 million (2008: £916 million, 2007: £332 million) and £1,099 million (2008: £914 million, 2007: £332 million) respectively.

Where collateral has been pledged by the OPB and the right of set off is only enforceable on the occurrence of a particular future event then the pledged asset continues to be recognised by the OPB. On the same basis the OPB does not recognise collateral pledged by counterparties. Off balance sheet derivative collateral at 31 December 2009 which had been pledged to/by the OPB amounted to £188 million (2008: £334 million, 2007: £nil) and £455 million (2008: £501 million, 2007: £nil) respectively.

20. Obligations for repayment of collateral received

	2009	2008	2007
	£m	£m	£m
Carrying value:			
At 31 December	4,106	5,035	3,531
Amount due for settlement after 12 months	1,054	2,205	494

	2009	2008	2007
	£m	£m	£m
Fair value:			
At 31 December	4,106	5,035	3,531

21. Financial liabilities

	2009	2008	2007
	£m	£m	£m
Carrying value:			
Financial liabilities at fair value through profit or loss:			
Designated upon initial recognition	9,774	10,106	4,286
Held for trading – derivatives	2,819	3,624	311
Financial liabilities measured at amortised cost	9,066	10,079	4,564
	21,659	23,809	9,161
Amount due for settlement after 12 months	7,509	8,367	1,141

	2009	2008	2007
	£m	£m	£m
Fair value:			
Financial liabilities at fair value through profit or loss:			
Designated upon initial recognition	9,774	10,106	4,286
Held for trading – derivatives	2,819	3,624	311
Financial liabilities measured at amortised cost	8,615	9,504	4,567
	21,208	23,234	9,164

22. Provisions

	Re-structuring	Leasehold properties	Staff related	Known incidents	Other	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2009	20	40	23	19	37	139
Additions in the year	—	2	2	2	13	19
Utilised during the year	(5)	(3)	(3)	(7)	(10)	(28)
Released during the year	(8)	(2)	(5)	(7)	(8)	(30)
Effect of discounting and of changes in the discount rate	—	—	1	—	—	1
At 31 December 2009	7	37	18	7	32	101

	Re-structuring	Leasehold properties	Staff related	Known incidents	Other	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2008	7	21	19	—	29	76
Acquisition through business combinations	1	10	21	17	11	60
Additions in the year	13	13	1	7	27	61
Utilised during the year	(1)	(4)	(15)	(5)	(31)	(56)
Released during the year	—	(1)	(4)	—	—	(5)
Effect of discounting and of changes in the discount rate	—	1	1	—	1	3
At 31 December 2008	20	40	23	19	37	139

	Re-structuring	Leasehold properties	Staff related	Known incidents	Other	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2007	9	24	20	—	37	90
Additions in the year	—	2	2	—	6	10
Utilised during the year	(1)	(5)	(1)	—	(3)	(10)
Released during the year	(1)	(1)	(3)	—	(11)	(16)
Effect of discounting and of changes in the discount rate	—	1	1	—	—	2
At 31 December 2007	7	21	19	—	29	76

The restructuring provision relates principally to the anticipated redundancy costs associated with the closure of the OPB's Glasgow and Peterborough life operations, which is expected to occur through 2009, 2010 and 2011.

The leasehold properties provision has been made for amounts in respect of the excess of lease rentals and other payments on properties that are currently vacant or are expected to become vacant, over the amounts to be recovered from subletting these properties. The discount rate used ranged between 5.0% and 6.1% (2008: 5.9% and 7.5%, 2007: 7.1%) and it is expected that the provision will be utilised over the next 8 years.

Staff related provisions primarily relate to redundancy costs of staff that have been transferred under outsourcing contracts. This provision will be utilised over the next two years.

The known incidents provision was created for historical data quality, administration systems problems and process deficiencies on the policy administration, financial reconciliations and operational finance aspects of business outsourced.

Included in other provisions is £9 million in respect of investment contracts representing the excess of future costs over future charges on the OPB's unit linked business, assessed at a product level. The discount rate used in calculating the provision is 4.0% (2008: 3.4%, 2007: 5.0%) and the provision is expected to run off over the remaining life of the business, estimated at 30 years. The remainder of the balance includes litigation and onerous contract provisions.

23. Tax assets and liabilities

	2009	2008	2007
	£m	£m	£m
Current tax receivables	44	135	—
Net deferred tax assets	81	110	1
Total tax assets	125	245	1
Current tax payables	(103)	(126)	(78)
Net deferred tax liabilities	(464)	(602)	(58)
Total tax liabilities	(567)	(728)	(136)

Deferred tax assets comprise:

	2009	2008	2007
	£m	£m	£m
Trading losses	28	99	—
Expenses and deferred acquisition costs carried forward	142	147	2
Provisions and other temporary differences	30	19	—
Pension schemes	34	39	—
Accelerated capital allowances	24	28	4
Unpaid interest	45	—	—
Gross deferred tax assets	303	332	6
Less: offset against deferred tax liabilities	(222)	(222)	(5)
Net deferred tax assets	81	110	1

Deferred tax liabilities comprise:

	2009	2008	2007
	£m	£m	£m
Acquired in-force business	(482)	(516)	—
Unrealised gains on investments	(7)	(7)	(24)
Surplus within the non profit funds	(96)	(186)	(10)
On profit arising from the changes in assumptions used for determining insurance contracts liabilities in accordance with PS 06/14	—	(8)	—
Provisions and other temporary differences	(19)	(20)	(6)
Pension scheme	—	(1)	(23)
Adjustment for insurance policies held with related parties in respect of the PGL Pension Scheme	(17)	(19)	—
Intangible assets	(65)	(67)	—
Gross deferred tax liabilities	(686)	(824)	(63)
Less: offset against deferred tax assets	222	222	5
Net deferred tax liabilities	(464)	(602)	(58)

Movements in deferred tax assets/(liabilities) comprise:

	2009	2008	2007
	£m	£m	£m
At 1 January	(492)	(57)	(64)
Acquisition through business combinations	—	(873)	—
Amounts credited to the income statement	99	372	18
Amounts credited/(charged) to the statement of other comprehensive income	12	64	(11)
Other	(2)	2	—
At 31 December	(383)	(492)	(57)

Deferred tax has been provided on the surpluses within the non profit funds on the assumption that all such surpluses will eventually be distributed to owners.

Deferred income tax assets are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable.

	2009	2008	2007
	£m	£m	£m
Deferred income tax assets have not been recognised in respect of:			
Tax loss carry forwards	141	77	21
Excess expenses and deferred acquisition costs carried forward	50	25	11
Provisions and other temporary differences	3	3	6
Deferred tax assets not recognised on capital losses	210	207	12

These can only be offset against future capital gains and have no expiry date.

24. Payables related to direct insurance contracts

	2009	2008	2007
	£m	£m	£m
Payables related to direct insurance contracts	759	731	165
Amount due for settlement after 12 months	66	—	—

General insurance

Due to the historic diversity of issued general insurance policies and taking into account the legal and regulatory environment for hazardous risks, it is possible that additional claims could emerge from long tail unexpired risks albeit it is not possible to predict the quantum, location or timing of such occurrences.

The estimation of the provisions for the ultimate cost of claims for asbestos and environmental pollution is subject to a range of uncertainties that is generally greater than those encountered for other classes of insurance business and as a consequence of this uncertainty the eventual costs of settlement of outstanding claims and unexpired risks can vary substantially from the estimates.

Pearl Assurance plc

Within Pearl, the provision for the future claims payments has primarily been assessed in accordance with actuarial methods projecting the number and amount of claims separately. Where there is a notable exposure to long-term asbestos, pollution and health hazard liabilities, external independent actuaries provide best estimate benchmarks. An appropriate prudential margin is applied to certain lines of business as it is recognised that the estimation of certain future claims payments is an inherently uncertain exercise and future experience could be more adverse.

In calculating the provisions in respect of long-term UK Industrial disease business the future investment income on the assets held to cover the related provisions has been taken into account by discounting future cash flows. The average period before the undiscounted liability will be settled has been estimated at 14 years for 2009 (2008: 15 years, 2007: 9 years) and the provision has been discounted at 2.5% (2008: 2.5%, 2007: 3.5%) per annum.

The overall effect is to reduce the gross and net claims outstanding financial liability for those classes of business referred to above at 31 December 2009 by £9 million from £35 million to £26 million (2008: by £11 million from £36 million to £25 million, 2007: by £12 million from £35 million to £23 million). The total amount of the investment return which corresponds to the unwinding of the discount is £1 million (2008: £1 million, 2007: £1 million).

PA (GI) Limited

Within PA (GI) Limited ("PAGI") the provision for outstanding general insurance claims comprises the estimated ultimate cost of settling claims notified but not settled by the period end. It includes related expenses and a deduction for the expected value of salvage and other recoveries. The provision is determined using the best information available of claims settlement patterns, forecast inflation and settlement of claims. The general insurance liabilities of PAGI are wholly reinsured externally to RSA.

25. Accruals and deferred income

	2009	2008	2007
	£m	£m	£m
Accruals	176	233	45
Deferred income	—	—	7
	176	233	52
Amount due for settlement after 12 months	3	—	—

26. Other payables

	2009	2008	2007
	£m	£m	£m
Investment broker balances	420	68	1,140
Collateral creditors	—	66	—
Amounts outstanding payable to Royal London	—	271	—
Other payables	340	328	124
	760	733	1,264
Amount due for settlement after 12 months	8	60	21

27. Pension schemes

The OPB operates two staff Pension Schemes, the Pearl Group Staff Pension Scheme and since 1 May 2008, following the acquisition of the Resolution Group, the PGL Pension Scheme (formerly the Resolution Group Pension Scheme).

The carrying value of the defined benefit pension schemes is set out below:

	2009	2008	2007
	£m	£m	£m
Pearl Group Staff Pension Scheme (deficit)/surplus	(121)	(141)	81
PGL Pension Scheme – economic surplus	62	203	—
Adjustment for insurance policies held with related parties and eliminated on consolidation	(66)	(68)	—
PGL Pension Scheme – reported (deficit)/surplus	(4)	135	—

Information on each of these schemes is set out below.

(a) Pearl Group Staff Pension Scheme

The Pearl Group Staff Pension Scheme ("the Pearl Scheme") comprises a final salary section, a money purchase section and a hybrid section (a mix of final salary and money purchase). The final salary and hybrid sections of the Pearl Scheme are closed to new members.

Defined contribution scheme

The OPB participates in the defined contribution section of the Pearl Scheme. Contributions in the year amounted to £2 million (2008: £1 million, 2007: £1 million).

Defined benefit scheme

The Pearl Scheme is funded by payment of contributions to a separately administered trust fund and is subject to regular valuations by an independent qualified actuary. PGH2 is the principal employer of the Pearl Scheme.

Given the deficit in the Pearl Scheme, the principal employer and the Trustees of the Pearl Scheme entered into a contract during 2007 under which the principal employer guaranteed returns on the Pearl Scheme's assets sufficient to ensure that there would be no funding shortfall by 30 June 2027. On 30 June 2009, and every three years thereafter, a valuation was to be performed to determine the extent to which additional payments were required to be made to the Pearl Scheme as a consequence of the target investment return not being achieved. As at 31 December 2008, the anticipated additional payment due on 30 June 2009 under this contract was estimated to be £607 million.

Effective 2 September 2009, the principal employer and the Trustees of the Pearl Scheme entered into an agreement to restructure this contract, the principal terms of which provided for the following:

- a cash payment into the scheme of £50 million in October 2009 followed by cash payments of £25 million per annum for a period of 10 years, commencing on 30 September 2010, subject to certain capital resource and other requirements being maintained; and
- the Trustees being granted a first charge over the shares in Pearl, NPLL, London Life Limited, Pearl Group Services Limited and PGS 2 Limited to secure an amount not exceeding 60% of the deficit arising on the triennial scheme valuation (as calculated in accordance with the terms of the agreement), subject to an initial amount and a maximum of £600 million, such security ceasing on a scheme buy out, the principal employer discharging its liabilities under the agreement or upon a valuation of the scheme demonstrating there is no funding deficit if earlier. Enforcement of the security may take place on the occurrence of various events, the key ones being (i) a failure by the principal employer to pay agreed cash contributions to the scheme, (ii) an insolvency or other similar financial difficulties of the principal employer, (iii) except in certain defined circumstances, payments of interest or principal to the principal employer's lenders or of dividends to the principal employer's owners being made at a time when the principal employer has failed to maintain an embedded value of at least 1.3 times the amount secured, (iv) the principal employer failing to maintain an embedded value of at least 1.05 times the amount secured or (v) the principal employer granting certain types of security over its assets. NP Life Holdings Limited has also granted a limited recourse share charge over the shares it holds in NPLL in favour of the Trustee in respect of the principal employer's obligation under this agreement. This security is granted on substantially the same terms as the security granted by the principal employer.

The principal employer had also provided the Pearl Scheme with additional security by making payments into an escrow fund. The balance in this escrow fund at 31 December 2008 was £11 million (2007: £10 million). It was originally intended that monies in escrow would be used to meet any funding shortfall in the Pearl Scheme at 30 June 2027. However, under the agreement set out above the amount held in escrow was paid into the Pearl Scheme in 2009.

In addition, the principal employer meets the administration expenses of the Pearl Scheme.

The valuation has been based on an assessment of the liabilities of the Pearl Scheme as at 31 December 2009, undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related current service costs have been measured using the projected unit credit method.

The principal financial assumptions of the Pearl Scheme are set out below:

	2009	2008	2007
	%	%	%
Rate of general long-term increase in salaries	4.5	3.6	5.0
Rate of increase in pensions	3.5	2.9	3.5
Discount rate	5.7	6.1	5.8
Inflation	3.5	2.6	3.5
Expected rate of return on scheme assets	5.0	6.1	6.0

The discount rate and inflation rate assumptions used for the calculation of the liabilities have been determined by considering the shape of the appropriate yield curves and the duration of the Pearl Scheme liabilities. This method determines an equivalent single rate for both the discount and inflation rates, which is derived from the profile of projected benefit payments.

The expected rate of return on scheme assets assumption for 2007 was derived after considering historical returns and assuming that asset classes with higher volatility generate higher returns (consistent with widely accepted capital market principles). The overall expected return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation.

The expected rate of return on scheme assets assumption for 2008 and 2009 was derived after taking the guaranteed return as prescribed by the contract for differences dated 12 October 2007. The guaranteed return was the return on gilts as at 31 December 2008 plus 1.3%.

It has been assumed that post retirement mortality is in line with standard tables PMA92C2009 for males and PFA92C2009 for females, based on year of use and including Medium Cohort projections for future mortality improvements. Under these assumptions, the average life expectancy from retirement for a member currently age 40 retiring at age 60 is 26.8 years and 29.8 years for male and female members respectively.

The amounts recognised in the income statement are as follows:

	2009	2008	2007
	£m	£m	£m
Current service cost	(1)	(1)	(2)
Interest cost	(90)	(101)	(91)
Expected return on scheme assets	68	112	106
	(23)	10	13

The net actuarial gains and losses recognised in other comprehensive income comprise the following:

	2009	2008	2007
	£m	£m	£m
Actual return less expected return on scheme assets	261	(513)	12
Experience gains/(losses) arising on scheme liabilities	46	(16)	(30)
(Loss)/gain due to changes in assumptions underlying scheme liabilities	(326)	290	61
	(19)	(239)	43

The cumulative net actuarial (losses)/gains recognised in other comprehensive income amounts to £(215) million (2008: £(196) million, 2007: £43 million).

The amounts recognised in the statement of financial position are as follows:

	2009	2008	2007
	£m	£m	£m
Fair value of scheme assets	1,684	1,393	1,865
Present value of defined benefit obligation	(1,805)	(1,534)	(1,784)
(Deficit)/surplus	(121)	(141)	81

The actual return on the scheme assets comprises the following:

	2009	2008	2007
	£m	£m	£m
Expected return on scheme assets	68	112	106
Actuarial gains/(losses) on scheme assets	261	(513)	12
	329	(401)	118

The change in the present value of the defined benefit obligation is as follows:

	2009	2008	2007
	£m	£m	£m
At 1 January	1,534	1,784	1,798
Current service cost	1	1	2
Interest cost	90	101	91
Actuarial losses/(gains)	280	(274)	(30)
Benefits paid	(100)	(78)	(77)
At 31 December	1,805	1,534	1,784

The defined benefit obligation arises from plans that are wholly or partly funded.

The change in the fair value of the scheme assets is as follows:

	2009	2008	2007
	£m	£m	£m
At 1 January	1,393	1,865	1,812
Expected return on scheme assets	68	112	106
Actuarial gains/(losses) on scheme assets	261	(513)	12
Contributions by the employer	62	7	12
Benefits paid	(100)	(78)	(77)
At 31 December	1,684	1,393	1,865

The distribution of the scheme assets at the end of the year was as follows:

	2009	2008	2007
	£m	£m	£m
Equities	318	417	581
Bonds	1,215	846	1,160
Properties	63	116	142
Cash and other	88	14	(18)
	1,684	1,393	1,865

Contributions totalling £25 million are expected to be paid into the scheme in 2010 in accordance with the agreement with the Trustees of the Pearl Scheme.

Table of historical information

	2009	2008	2007
	£m	£m	£m
Fair value of scheme assets	1,684	1,393	1,865
Defined benefit obligation	(1,805)	(1,534)	(1,784)
(Deficit)/surplus	(121)	(141)	81
Experience gains/(losses) on scheme assets	261	(513)	12
Experience gains/(losses) on scheme liabilities	46	(16)	(30)

(b) PGL Pension Scheme

Defined contribution scheme

The OPB participates in the defined contribution section of the PGL Pension Scheme (''the PGL Scheme''). Contributions in the year amounted to £3 million (2008: £3 million).

Defined benefit scheme

The defined benefit section of the PGL Scheme is a final salary arrangement which is generally closed to new entrants and, in respect of former members of the Phoenix Life Group pension scheme (which merged with the PGL Scheme in 2006) to future service accrual.

The valuation has been based on an assessment of the liabilities of the PGL Scheme as at 31 December 2009, undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related current service costs have been measured using the projected unit credit method.

The principal financial assumptions of the PGL Scheme are set out below:

	2009	2008
	%	%
Rate of general long-term increase in salaries	4.6	3.9
Rate of increase in pensions	3.5	2.8
Discount rate	5.7	6.3
Inflation	3.6	2.9
Expected rate of return on scheme assets	5.4	4.6

The discount rate and inflation assumptions used for the calculation of the liabilities have been determined by considering the shape of the appropriate yield curves and the duration of the PGL Scheme liabilities. This method determines an equivalent single rate for both the discount and inflation rates, which is derived from the profile of projected benefit payments.

The expected rate of return on scheme assets is derived after considering historical returns and assuming that asset classes with higher volatility generate higher returns (consistent with widely accepted capital market principles). The overall expected return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation.

It has been assumed that post retirement mortality is in line with standard tables PNA00 with a scaling factor of 105% being applied, allowing for future improvements in line with the long cohort improvement factors, subject to a minimum improvement from 2007 onwards of 1.25% p.a. and 0.75% p.a. for males and females respectively. Under these assumptions, the average life expectancy from retirement for a member currently age 40 retiring at age 57 is 33.9 years and 35.0 years for male and female members respectively. The average life expectancy from retirement for a member currently aged 50 retiring at age 57 is 32.5 years and 34.2 years for male and female members respectively.

The economic value of the PGL Scheme assets as at 31 December 2009 amounted to £1,192 million (2008: £1,121 million) and the economic value of the surplus amounted to £62 million (2008: £203 million). For financial reporting purposes the carrying value of the insurance policies effected by the PGL Scheme with the OPB amounting to £66 million (2008: £68 million) have been eliminated on consolidation, resulting in reported assets of the PGL Scheme as at 31 December 2009 of £1,126 million (2008: £1,053 million) and a reported (deficit)/surplus of £(4) million (2008: £135 million).

The amounts recognised in the income statement are as follows:

	2009	2008
	£m	£m
Current service cost	(3)	(3)
Interest cost	(56)	(39)
Expected return on scheme assets	52	35
	(7)	(7)

The net actuarial gains and losses recognised in other comprehensive income comprise the following:

	2009	2008
	£m	£m
Actual return less expected return on scheme assets	52	(7)
Experience gain/(loss) arising on scheme liabilities	13	(15)
(Loss)/gain due to changes in assumptions underlying scheme liabilities	(214)	98
Actuarial (loss)/gain	(149)	76

The cumulative net actuarial losses recognised in other comprehensive income since 1 May 2008 amounts to £73 million.

	2009	2008
	£m	£m
Fair value of scheme assets	1,126	1,053
Present value of defined benefit obligation	(1,130)	(918)
(Deficit)/surplus	(4)	135

The actual return on the scheme assets comprises the following:

	2009	2008
	£m	£m
Expected return on scheme assets	52	35
Actuarial gain/(loss) on scheme assets	52	(7)
	104	28

The change in the present value of the defined benefit obligation is as follows:

	2009	2008
	£m	£m
At 1 January	918	—
Acquisition through business combination	—	987
Current service cost	3	3
Interest cost	56	39
Actuarial losses/(gains)	201	(83)
Benefits paid	(48)	(28)
At 31 December	1,130	918

The defined benefit obligation arises from plans that are wholly or partly funded.

The change in the fair value of the scheme assets is as follows:

	2009	2008
	£m	£m
At 1 January	1,053	—
Acquisition through business combination	—	1,043
Expected return on scheme assets	52	35
Actuarial gain on scheme assets	52	(7)
Contributions by the employer	17	10
Benefits paid	(48)	(28)
At 31 December	1,126	1,053

The distribution of the scheme assets at the end of the year was as follows:

	2009	2008
	£m	£m
Bonds	995	979
Properties	110	127
Cash and other	21	(53)
	1,126	1,053

Contributions totalling £15 million are expected to be paid into the scheme in 2010.

Table of historical information from 1 May 2008.

	2009	2008
	£m	£m
Fair value of scheme assets	1,126	1,053
Defined benefit obligation	(1,130)	(918)
(Deficit)/surplus	(4)	135
Experience gains/(losses) on scheme assets	52	(7)
Experience gains/(losses) on scheme liabilities	13	(15)

28. Intangible assets

	Goodwill	Customer relationships	Acquired in-force business	Present value of future profits	Other	Total
	£m	£m	£m	£m	£m	£m
Cost or valuation						
At 1 January 2009 and 31 December 2009	146	288	2,001	35	8	2,478
Amortisation and impairment losses						
At 1 January 2009	—	(50)	(506)	—	(5)	(561)
Amortisation charge for the year	—	(7)	(100)	—	(3)	(110)
At 31 December 2009	—	(57)	(606)	—	(8)	(671)
Carrying amount						
At 31 December 2009	146	231	1,395	35	—	1,807
Amount recoverable after 12 months	146	222	1,291	35	—	1,685

	Goodwill	Customer relationships	Acquired in-force business	Present value of future profits	Other	Total
	£m	£m	£m	£m	£m	£m
Cost or valuation						
At 1 January 2008	—	—	8	68	—	76
Acquisition through business combinations	146	288	1,993	—	8	2,435
Revaluation	—	—	—	(33)	—	(33)
At 31 December 2008	146	288	2,001	35	8	2,478
Amortisation and impairment losses						
At 1 January 2008	—	—	—	—	—	—
Amortisation charge for the year	—	(5)	(98)	—	(5)	(108)
Impairment losses	—	(45)	(408)	—	—	(453)
At 31 December 2008	—	(50)	(506)	—	(5)	(561)
Carrying amount						
At 31 December 2008	146	238	1,495	35	3	1,917
Amount recoverable after 12 months	146	231	1,395	35	3	1,812

	Goodwill	Customer relationships	Acquired in-force business	Present value of future profits	Other	Total
	£m	£m	£m	£m	£m	£m
Cost or valuation						
At 1 January 2007	—	—	8	74	—	82
Revaluations	—	—	—	(6)	—	(6)
At 31 December 2007	—	—	8	68	—	76
Carrying amount						
At 31 December 2007	—	—	8	68	—	76
Amount recoverable after 12 months	—	—	8	68	—	76

Goodwill

Goodwill of £146 million was recognised on the acquisition of Resolution plc.

The carrying value of goodwill has been tested for impairment at the period end. No impairment has resulted as the value in use of this intangible continues to exceed its carrying value. Value in use has been determined as the present value of certain future cash flows associated with the Ignis Asset Management business and the management services business of the Phoenix Life segment. The cash flows used in this calculation are consistent with those adopted by management in the OPB's operating plan and for the period 2014 and beyond, reflect the anticipated run-off of the Phoenix Life insurance business. Future cash flows have been valued using a discount rate of 10.0% (2008: 9.8%).

The carrying amount of goodwill allocated to the life assurance segment is £41 million and to the asset management segment is £105 million.

Customer Relationships

The customer relationships intangible includes an intangible representing vesting pension premiums which captures the new business arising from policies in-force at the acquisition date, specifically top-ups made to existing policies and annuities vested from matured pension policies. The total value of this customer relationships intangible at acquisition was £97 million and has been allocated to the life assurance segment. This intangible is being amortised over a 20 year period.

The second part of the customer relationships intangible relates to the investment management contracts ("IMCs") held within the asset management segment. These are further split into IMCs held with open-ended funds and institutional mandates.

The open-ended IMCs had a value at acquisition of £170 million and an indefinite useful economic life ("UEL"). The reason for the indefinite UEL is that funds are open-ended and indefinite in nature.

The institutional mandate IMCs had a value at acquisition of £21 million and a UEL of between 2 and 7 years. These investment management contract customer relationships intangibles have been allocated to the asset management segment.

Impairment reviews are undertaken on a yearly basis for the customer relationships intangibles. At 31 December 2008, impairments of £44 million and £1 million were realised for the open-ended IMCs intangibles and the institutional mandate IMCs respectively. No impairments resulted in relation to the life assurance intangibles. At 31 December 2009, following review, no further impairments resulted.

Under these impairment reviews, value in use has been determined as the present value of future cash flows associated with the IMCs. The cash flows used in this calculation are consistent with those adopted by management in the OPB's operating plan with a declining growth rate assumed for the extended forecast period beyond the period of this plan and a terminal value applied at the year where growth stabilises to 2% per annum. Future cash flows have been valued using a discount rate of 11.4% (2008: 13.3%).

The amortisation in relation to these customer relationship intangibles is presented separately on the combined income statement.

Acquired in-force business

Acquired in-force business of £1,993 million was recognised upon the acquisition of Resolution plc and represents the difference between the fair value of the contractual rights acquired and obligations assumed under insurance and investment contracts with and without DPF and the liability measured in accordance with the Group's accounting policies for such contracts.

At 31 December 2008, an impairment of £408 million was recognised to the carrying value of acquired in-force business reflecting adverse economic conditions. Value in use at 31 December 2008 was determined as the present value of the future cash flows associated with the in-force business acquired through the acquisition of Resolution plc. The cash flows used in this calculation were consistent with those used to determine policyholder liabilities as reported in the combined statement of financial position. Those future cash flows were underpinned by a number of assumptions including mortality and longevity rates, persistency rates and economic assumptions including expense inflation. Further details on the assumptions adopted are provided in note 38.5.1 to the accounts. Future cash flows were valued using a discount rate which reflects the risk inherent in each cash flow. This rate was set as being equal to the risk free rates derived from the gilt yield curve at 31 December 2008 with an addition of 10 bps (3.84%). At 31 December 2009, following review, no further impairment resulted.

All of the acquired in-force business is allocated to the life assurance segment.

PVFP on non participating business in the with profit fund

The value of the PVFP is determined in accordance with the FSA's realistic capital regime and is allocated in full to the life assurance segment. The principal assumptions used to calculate the PVFP are the same as those used in calculating the insurance contract liabilities given in note 38.5.1.

During the year £nil (2008: £33 million, 2007: £6 million) of PVFP was charged directly to the combined income statement.

29. Property, plant and equipment

	2009	2008	2007
	£m	£m	£m
Cost or valuation			
At 1 January	37	4	—
Additions	2	1	4
Acquisition through business combinations	—	32	—
Disposals	(1)	—	—
At 31 December	38	37	4
Depreciation			
At 1 January	(2)	—	—
Charge for the year	(3)	(2)	—
On disposals	1	—	—
At 31 December	(4)	(2)	—
Carrying amount			
At 31 December	34	35	4

The useful lives of plant and equipment have been taken as follows: motor vehicles 3-4 years, computer equipment 3-4 years, furniture and office equipment 5-10 years.

The valuation of land and buildings is carried out at least every three years as at 31 December by external surveyors in accordance with the Royal Institution of Chartered Surveyors' requirements under an open market valuation basis. The latest valuation was undertaken on 31 December 2009.

30. Investment property

	2009	2008	2007
	£m	£m	£m
At 1 January	1,986	460	441
Acquisition through business combinations	—	2,157	—
Additions	403	24	2
Improvements	8	5	—
Disposals	(468)	(191)	(36)
(Losses)/gains on adjustments to fair value	(14)	(469)	53
At 31 December	1,915	1,986	460

Investment property is stated at fair value and is independently valued in accordance with the Royal Institute of Chartered Surveyors' guidelines on the basis of the open market value of such properties.

Investment properties include £252 million (2008: £259 million, 2007: £296 million) property reversions arising from sales of the NPI Extra Income Plan. The reversionary interest is valued as the NPI and NPLL proportion of the current market value, projected for the lifetime of the policyholder at the assumed future increase in house prices, then discounted back by the valuation rate of interest.

Direct operating expenses (included within administrative expenses) in respect of investment properties that generated rental income during the year amounted to £8 million (2008: £3 million; 2007: £2 million). The direct operating expenses arising from investment property that did not generate rental income during the year amounted to £3 million (2008: £nil, 2007: £1 million).

31. Financial assets

	2009	2008	2007
	£m	£m	£m
Loans and receivables at amortised cost	1,126	1,070	101
Financial assets at fair value through profit or loss:			
Held for trading – derivatives	3,523	4,411	613
Designated upon initial recognition:			
Equities	13,151	13,540	4,795
Fixed and variable rate income securities	37,658	39,164	15,389
Collective investment schemes	6,094	5,757	6,719
	61,552	63,942	27,617
Amount recoverable after 12 months	39,857	60,471	25,288

The fair value of loans and receivables at amortised cost amounted to £1,074 million (2008: £978 million, 2007: £101 million).

Determination of fair value and fair value hierarchy of financial instruments

Level 1 financial instruments. The fair value of financial instruments traded in active markets (such as publicly traded securities and derivatives) is based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. If the bid price is unavailable a 'last traded' approach is adopted. For units in unit trusts and shares in open-ended investment companies, fair value is by reference to published bid values.

Level 2 financial instruments. The fair values of investments that are not traded in an active market are determined using valuation techniques with observable market inputs. The fair value of shares and other variable yield securities and of derivative financial instruments, are estimated using pricing models, discounted cash flow techniques or broker quotes. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument.

Level 3 financial instruments. The OPB's financial assets determined by valuation techniques using non-observable inputs are based on a combination of independent third party evidence and internally developed models. Third party evidence in the form of net asset valuation statements, are used in the valuation of the majority of indirect property, private equity and hedge funds. Broker quotes are received for certain bonds where the market is considered to be inactive. Internally developed models have been used in the valuation of a small number of investment vehicles which due to their nature and complexity have no external market. Inputs into the internally developed models are based on market observable data where available.

Fair value hierarchy of financial instruments measured at fair value

As at 31 December 2009	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
	£m	**£m**	**£m**	**£m**
Financial assets at fair value				
Derivatives	1,295	2,228	—	3,523
Financial assets designated at fair value through profit or loss upon initial recognition:				
Equities	11,012	645	1,494	13,151
Fixed and variable rate income securities	33,672	3,167	819	37,658
Collective investment schemes	5,859	—	235	6,094
	50,543	3,812	2,548	56,903
Total financial assets at fair value	51,838	6,040	2,548	60,426

As at 31 December 2009	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
Financial liabilities at fair value				
Derivatives	1,297	1,522	—	2,819
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Investment contract liabilities	—	8,570	—	8,570
Borrowings	—	258	—	258
Net asset value attributable to unit holders	792	—	154	946
	792	8,828	154	9,774
Total financial liabilities at fair value	2,089	10,350	154	12,593

As at 31 December 2008	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
Financial assets at fair value				
Derivatives	548	3,863	—	4,411
Financial assets designated at fair value through profit or loss upon initial recognition:				
Equities	10,967	946	1,627	13,540
Fixed and variable rate income securities	33,448	4,825	891	39,164
Collective investment schemes	5,378	17	362	5,757
	49,793	5,788	2,880	58,461
Total financial assets at fair value	50,341	9,651	2,880	62,872

As at 31 December 2008	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
Financial liabilities at fair value				
Derivatives	551	3,073	—	3,624
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Investment contract liabilities	—	7,909	—	7,909
Borrowings	—	277	—	277
Net asset value attributable to unit holders	1,658	—	262	1,920
	1,658	8,186	262	10,106
Total financial liabilities at fair value	2,209	11,259	262	13,730

As at 31 December 2007	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
Financial assets at fair value				
Derivatives	—	613	—	613
Financial assets designated at fair value through profit or loss upon initial recognition:				
Equities	3,733	29	1,033	4,795
Fixed and variable rate income securities	12,370	2,324	695	15,389
Collective investment schemes	5,481	319	919	6,719
	21,584	2,672	2,647	26,903
Total financial assets at fair value	21,584	3,285	2,647	27,516

As at 31 December 2007	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
Financial liabilities at fair value				
Derivatives	—	311	—	311
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Investment contract liabilities	—	3,958	—	3,958
Borrowings	—	328	—	328
	—	4,286	—	4,286
Total financial liabilities at fair value	—	4,597	—	4,597

Level 3 financial instrument sensitivities

Included in Level 3 investments are two property investment structures with a value of £106 million and £110 million respectively.

The first of these investments has been independently valued using a multi scenario discounted cash flow model. Under the optimistic scenario, the fair value of the investment would increase by £18 million and in the worst case scenario the fair value would decrease by £8 million.

The second investment, has been valued by taking the fair value of the property within the structure, which has been independently valued, less the fair value of the debt within the structure. The valuation is sensitive to movements in yields on the underlying property portfolio. An increase in yields of 25bps would reduce the value of the investment by £19 million and a reduction in yields of 25bps would increase the value by £21 million.

Level 3 investments in indirect property, private equity and hedge funds are valued using net asset statements provided by independent third parties and therefore no sensitivity analysis has been prepared.

Debt securities categorised as Level 3 investments are valued using broker quotes. Although such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

Significant transfers of financial instruments between Level 1 and Level 2

As at 31 December 2009	From Level 1 to Level 2	From Level 2 to Level 1
	£m	£m
Financial assets at fair value		
Derivatives	—	—
Financial assets designated at fair value through profit or loss upon initial recognition:		
Equities	—	—
Fixed and variable rate income securities	226	234
Collective investment schemes	—	—
	226	234
Financial liabilities at fair value		
Derivatives	9	—
Financial liabilities designated at fair value through profit or loss upon initial recognition:		
Investment contract liabilities	—	—
Borrowings	—	—
Net asset value attributable to unit holders	—	—
	9	—

2009 saw an improvement in the liquidity of the fixed and variable rate income securities market which has resulted in a number of securities moving from Level 2 into Level 1. There were however, a number of securities that moved from Level 1 into Level 2 as a result of a downgrading in their credit rating. These securities were mainly in the financial sectors with issuers such as banks and insurance companies.

Movement in Level 3 financial instruments measured at fair value

	At 1 Jan 2009	Total losses in income statement	Purchases and sales	Transfers from Level 1 and Level 2	At 31 Dec 2009	Unrealised gains/ (losses) on assets held at end of year
	£m	£m	£m	£m	£m	£m
Financial assets designated at fair value through profit or loss upon initial recognition						
Equities	1,627	(120)	(16)	3	1,494	29
Fixed and variable rate income securities	891	(22)	(11)	(39)	819	(18)
Collective investment schemes	362	(27)	(100)	—	235	37
	2,880	(169)	(127)	(36)	2,548	48

	At 1 Jan 2009	Total losses in income statement	Purchases and sales	Transfers from Level 1 and Level 2	At 31 Dec 2009	Unrealised gains on liabilities held at end of year
	£m	£m	£m	£m	£m	£m
Financial liabilities designated at fair value through profit or loss upon initial recognition						
Net asset value attributable to unit holders	262	(69)	(39)	—	154	29

32. Stock lending

The OPB lends listed financial assets held in its investment portfolio to other institutions. The OPB conducts its stock lending programme only with well-established, reputable institutions in accordance with established market conventions.

The financial assets do not qualify for derecognition as the OPB retains all the risks and rewards of the transferred assets except for the voting rights. The carrying value of listed financial assets lent at 31 December 2009 that have not been derecognised amounted to £8,612 million (2008: £8,744 million, 2007: £3,025 million).

It is the OPB's practice to obtain collateral in stock lending transactions, usually in the form of cash or marketable securities. Certain cash collateral is available to the OPB for investment purposes and is therefore recognised as a financial asset and a financial liability. The amount recognised as a financial asset and a financial liability at 31 December 2009 is £2,780 million (2008: £3,476 million, 2007: £3,152 million) and £3,007 million (2008: £4,121 million, 2007: £3,199 million) respectively. Other collateral is held on behalf of the OPB and is not recognised in the statement of financial position as the OPB is not permitted to sell or re-pledge the collateral in the absence of default.

The reinvested assets are primarily AAA listed securities and cash and the OPB also has other readily realisable financial assets which are available to settle the collateral liabilities if required.

33. Deferred acquisition costs

	Insurance contracts	Investment contracts	Total
	£m	£m	£m
At 1 January 2009	—	17	17
Amortisation charge	—	(4)	(4)
At 31 December 2009	—	13	13
Amount recoverable after 12 months	—	10	10

	Insurance contracts	Investment contracts	Total
	£m	£m	£m
At 1 January 2008	—	21	21
Amortisation charge	—	(4)	(4)
At 31 December 2008	—	17	17
Amount recoverable after 12 months	—	13	13

	Insurance contracts	Investment contracts	Total
	£m	£m	£m
At 1 January 2007	2	26	28
Amortisation charge	(2)	(5)	(7)
At 31 December 2007	—	21	21
Amount recoverable after 12 months	—	17	17

34. Other receivables

	2009	2008	2007
	£m	£m	£m
Amounts due from Royal London	—	194	—
Unsettled trades	550	149	—
Other debtors	231	73	96
	781	416	96
Amount recoverable after 12 months	—	67	17

35. Cash and cash equivalents

	2009	2008	2007
	£m	£m	£m
Bank and cash balances	2,218	3,125	644
Short-term deposits (including demand and time deposits)	3,858	4,450	1,379
	6,076	7,575	2,023

All deposits are subject to fixed interest rates. The carrying amounts approximate to fair value at the period end. Cash and cash equivalents in long-term business operations and collective investment schemes of £5,551 million (2008: £6,706 million, 2007: £1,653 million) are primarily held for the benefit of policyholders and so are generally not available for use by the owners.

36. Cash flows

(a) Cash flows from operating activities

	2009	2008	2007
	£m	£m	£m
Profit/(loss) for the year before tax	176	(1,372)	(166)
Non-cash movements in profit for the year before tax:			
Fair value losses/(gains) on:			
Investment property	14	469	(53)
Financial assets	(1,434)	5,240	152
Fair value (losses)/gains on:			
Borrowings	(53)	(27)	60
Depreciation of property, plant and equipment	3	2	—
Amortisation of intangible assets	110	108	—
Impairment of intangible assets	—	453	—
Change in present value of future profit	—	33	6
Change in unallocated surplus	129	(342)	(44)
Change in deposits received from reinsurers	(52)	38	—
Interest expense on borrowings	499	683	244
Net expected return on pension assets	26	(7)	(15)
Foreign currency exchange gains	(1)	(1)	(2)
Net (increase)/decrease in working capital	(931)	(3,597)	1,151
Cash (absorbed)/generated by operations	(1,514)	1,680	1,333

(b) Cash flows on acquisition of Resolution plc

	2009	2008	2007
	£m	£m	£m
Consideration settled in cash	—	4,880	—
Acquisition expenses	—	7	—
	—	4,887	—
Cash and cash equivalents of acquiree	—	(6,206)	—
	—	(1,319)	—

37. Capital statement

Capital Management Framework

The OPB's Capital Management Framework is designed to achieve the following objectives:

- provide appropriate security for policyholders and meet all regulatory capital requirements whilst not retaining unnecessary excess capital;
- ensure sufficient liquidity to meet obligations to policyholders and other creditors; and
- meet the dividend expectations of owners as set by the dividend policies of the OPB.

The framework comprises a suite of capital management policies that govern the allocation of capital throughout the OPB to achieve the framework objectives under a range of stress conditions. The policy suite is defined with reference to policyholder security, creditor obligations, owner dividend policy and regulatory capital requirements.

The capital policy of each OPB holding company is set by the respective holding company board and is monitored regularly. The policies ensure sufficient liquidity to meet creditor and dividend obligations through the combination of cash buffers and cash flows from the OPB's operating companies. Volatility in the latter is monitored through stress and scenario testing. Where cash flow volatility is judged to be in excess of the Board's risk appetite de-risking activities are undertaken.

The capital policy of each life company is set by each life company board and monitored on a daily basis. These policies ensure there is sufficient capital within each life company to meet regulatory capital requirements under a range of stress conditions. The capital policy of each life company varies according to the risk profile and financial strength of the company.

Regulatory capital requirements

Each UK life company must retain sufficient capital at all times to meet the regulatory capital requirements mandated by the FSA. In addition to EU-directive-based 'Pillar 1' and group capital requirements, the FSA has also stipulated a 'Pillar 2' of risk-based capital requirements that have been implemented in the UK. A life company's actual capital requirement is based on whichever of the Pillar 1 or Pillar 2 requirement turns out to be more onerous for the company. Each life company generally holds an amount of capital that is greater than the minimum required amount to allow for adverse events in the future that may use capital and might otherwise cause the company to fail the minimum level of regulatory capital test.

Pillar 1

With the exception of with profit businesses, the regulatory capital requirement under Pillar 1 is the total mount held in respect of investment, expense and insurance risks (the 'long-term insurance capital requirement' ("LTICR")) and any additional amounts required to cover the more onerous of two specified stress tests (the 'resilience capital requirement' ("RCR")). The regulatory capital requirement is then deducted from the available capital resources to give the excess capital on a regulatory basis.

A further test is required under Pillar 1 in respect of with profit funds which may result in an additional capital requirement referred to as the 'with profit insurance capital component' ("WPICC").

Pillar 2

The Pillar 2 capital requirements are based on a self-assessment methodology, the so called Individual Capital Assessment ("ICA"). This methodology determines the capital requirement to ensure that the life company's realistic liabilities can be met in one year's time with a 99.5% confidence level, or in other words to be able to withstand a 1 in 200 year event. The FSA reviews each life company's ICA and may impose additional capital requirements if necessary in the form of Individual Capital Guidance ("ICG").

Insurance Groups' Directive ("IGD")

FSA regulated insurance groups (including their holding companies) are also required to provide an assessment of capital adequacy on a group-wide basis to enable the FSA to assess both the level of insurance and financial risk within the group and the capital resources available to cover that risk. The assessment is known as the IGD and is the OPB's primary capital and solvency measure.

The OPB's IGD assessment is made at the highest EEA level insurance OPB holding company, which is PLHL.

Regulatory capital position statement

The purpose of the capital position statement is to set out the capital resources of the life assurance business of the OPB and to provide an analysis of the disposition and constraints over the availability of capital to meet risks and regulatory requirements. The capital position statement also provides a reconciliation of owners' funds to regulatory capital and on analysis of the regulatory capital between the OPB's with profit funds, non participating business, life business owners' funds and its other activities.

The OPB's material with profit funds are shown separately in the capital position statement and the less material with profit funds are aggregated and shown as 'Other'. The with profit funds shown separately are the Phoenix with profit fund ("PLL PWP"), the Britannic with profit fund ("PLL BWP"), SMA with profit fund ("SMA WPF"), Scottish Provident with profit fund ("SPL WPF") and the Pearl with profit fund ("Pearl WPF"). The with profit funds of London Life Limited and Phoenix and London Assurance Limited ("PALAL") are aggregated within the 'Other' column.

The capital statement reflects the capital resources attributable to the OPB and therefore includes 100% of the capital resources of the life businesses.

Prior to 1 January 2009, the OPB's capital resources included certain businesses within SMA and Scottish Provident Limited. On 30 January 2009 approval was granted by the High Court to transfer those businesses under Part VII of the Financial Services and Markets Act 2000 to PLL. The effective date of this transfer was 1 January 2009. This Part VII improved the fungibility of capital within the OPB, increasing excess group capital by £322 million.

The contributions made by Phoenix Pensions Limited ("PPL") and NPLL to the OPB's capital resources are included in the column headed "Life business owners funds", since they are owned by the OPB's life business owners' funds. An allocation of capital and loans from the OPB's life business owners' funds to the OPB's non participating business is made in respect of PPL and to the Pearl WPF in respect of NPLL representing capital resources to cover the capital resources requirement of the PPL and NPLL long-term funds respectively. The non participating business and other activities are shown in aggregate in the capital position statement. Virtually all activities of the OPB relate to UK business.

The OPB has a number of internal loan arrangements in place, which allow the OPB to provide capital support to other areas of the business. In addition to these internal loan arrangements, the OPB has in place a number of internal reinsurance contracts which are structured to manage the capital position between certain life funds.

The available capital resources in each part of the business are generally subject to restrictions as to their availability to meet requirements that may arise elsewhere in the OPB. The principal restrictions are:

With profit funds – any available surplus held in each fund can only be used to meet the requirements of the fund itself or be distributed to policyholders and owners. In 90:10 with profit funds, policyholders are entitled to at least 90% of the distributed profits while owners receive the balance. In 100:0 with profit funds, policyholders are entitled to 100% of the distributed profits. Any distribution to the owners would be subject to a tax charge which, for some funds, would be deducted from the amount received by owners.

Non participating funds – any available surplus held in these funds is attributable to owners. Capital within the non participating funds may be made available to meet capital requirements elsewhere in the OPB subject to meeting regulatory and legal requirements and after consideration of the internal capital requirements of the relevant fund and company. Any transfer of surplus may give rise to a tax charge subject to availability of tax relief elsewhere in the OPB.

Pearl Pacific fund – the owner attributed assets, known as the Pacific fund, are held within the surplus of the 0:100 fund of Pearl and are attributable to owners. The assets can only be released when, in the opinion of the Actuarial Function Holder and the Board, to do so would not adversely affect either the reasonable expectations of with profit policyholders or the security of non profit policyholders.

The capital statement and movement analysis that follows presents information about the capital resources for the OPB's UK life businesses.

2009

	With profit (see below)	Non participating	Life business owners' funds	Total life business	Other activities and consolidation adjustments (note d)	OPB total
	£m	£m	£m	£m	£m	£m
Owners' funds held outside long-term fund	—	—	2,475	2,475	(3,205)	(730)
Owners' funds held in long-term fund	—	902	(10)	892	—	892
Total owners' funds at 31 December 2009	—	902	2,465	3,367	(3,205)	162
Adjustments onto a regulatory basis						
Unallocated surplus	710	—	11	721		
Adjustments to assets (note a)	(64)	(298)	(810)	(1,172)		
Adjustments to liabilities (note b)	3,237	(87)	40	3,190		
Valuation difference between IFRS basis and regulatory basis	—	91	(8)	83		
Other qualifying capital:						
Subordinated debt (note c)	83	—	637	720		
Contingent loans	382	(228)	(88)	66		
Allocation of group capital	122	206	(328)	—		
Total available capital resources at 31 December 2009	4,470	586	1,919	6,975		

With profit

2009

	Pearl WPF	PLL PWP	PLL BWP	SMA WPF	SPL WPF	Other	Total
	£m	£m	£m	£m	£m	£m	£m
Owners' funds held outside long-term fund	—	—	—	—	—	—	—
Owners' funds held in long-term fund	—	—	—	—	—	—	—
Total owners' funds at 31 December 2009	—	—	—	—	—	—	—
Adjustments onto a regulatory basis							
Unallocated surplus	209	128	254	29	55	35	710
Adjustments to assets	(34)	(3)	(11)	—	1	(17)	(64)
Adjustments to liabilities	604	802	560	265	587	419	3,237
Other qualifying capital:							
Subordinated debt	83	—	—	—	—	—	83
Contingent loans	—	—	—	—	—	382	382
Allocation of group capital	122	—	—	—	—	—	122
Total available capital resources at 31 December 2009	984	927	803	294	643	819	4,470

2008

	With profit (see below)	Non participating	Life business owners' funds	Total life business	Other activities and consolidation adjustments (note d)	OPB total
	£m	£m	£m	£m	£m	£m
Owners' funds held outside long-term fund	—	—	4,625	4,625	(6,451)	(1,826)
Owners' funds held in long-term fund	28	1,438	—	1,466	—	1,466
Total owners' funds at 31 December 2008	28	1,438	4,625	6,091	(6,451)	(360)
Adjustments onto a regulatory basis						
Unallocated surplus	579	—	—	579	13	592
Adjustments to assets (note a)	(53)	(816)	(2,985)	(3,854)		
Adjustments to liabilities (note b)	2,809	(55)	148	2,902		
Valuation difference between IFRS basis and regulatory basis	—	115	—	115		
Other qualifying capital:						
Subordinated debt (note c)	65	—	405	470		
Contingent loans	2	21	—	23		
Allocation of group capital	531	160	(691)	—		
Total available capital resources at 31 December 2008	3,961	863	1,502	6,326		

With profit

2008

	Pearl WPF	PLL PWP	PLL BWP	SMA WPF	SPL WPF	Other	Total
	£m	£m	£m	£m	£m	£m	£m
Owners' funds held outside long-term fund	—	—	—	—	—	—	—
Owners' funds held in long-term fund	—	—	—	—	—	28	28
Total owners' funds at 31 December 2008	—	—	—	—	—	28	28
Adjustments onto a regulatory basis							
Unallocated surplus	208	96	182	24	42	27	579
Adjustments to assets	(18)	(6)	(13)	(1)	(1)	(14)	(53)
Adjustments to liabilities	419	722	316	415	714	223	2,809
Other qualifying capital:							
Subordinated debt	65	—	—	—	—	—	65
Contingent loans	—	—	—	—	—	2	2
Allocation of group capital	240	—	—	—	—	291	531
Total available capital resources at 31 December 2008	914	812	485	438	755	557	3,961

2007

	With profit						
	Pearl	LLL	Non participating	Life business owners' funds	Total life business	Other activities and consolidation adjustments (note d)	OPB total
	£m	£m	£m	£m	£m	£m	£m
Owners' funds held outside long-term fund................	—	—	—	1,419	1,419	(1,174)	245
Owners' funds held in long-term fund........................	—	—	324	—	324	—	324
Total owners' funds at 31 December 2007..........	—	—	324	1,419	1,743	(1,174)	569
Adjustments onto a regulatory basis							
Unallocated surplus............	301	10	—	—	311		
Adjustments to assets (note a)...........................	(23)	(4)	(40)	(650)	(717)		
Adjustments to liabilities (note b)...........................	1,202	71	(32)	(13)	1,228		
Valuation difference between IFRS basis and regulatory basis...............	—	—	4	—	4		
Other qualifying capital:							
Subordinated debt (note c)............................	65	—	—	(65)	—		
Contingent loans.............	—	10	16	—	26		
Allocation of group capital.............................	156	—	—	(156)	—		
Total available capital resources at 31 December 2007................................	1,701	87	272	535	2,595		

Note (a): Regulatory adjustments to assets reflect adjustments to derecognise inadmissible assets such as intangibles and deferred tax assets as well as those adjustments that are necessary where asset and counterparty exposures exceed the prescribed regulatory limits.

Note (b): Regulatory adjustments to liabilities reflect the different valuation basis for insurance liabilities on a regulatory basis.

Note (c): Of the £720 million (2008: £470 million, 2007: £nil) subordinated debt attributed to the life assurance business of the OPB, £520 million (2008: £270 million, 2007: £nil) is internal to the OPB, comprising £250 million (2008: £nil, 2007: £nil) provided to Pearl and £270 million (2008: £270 million, 2007: £nil) provided to PALAL. The remaining £200 million (2008: £200 million, 2007: £nil) is external subordinated debt issued by PLL.

Note (d): 'Other activities and consolidation adjustments' represent the contribution to consolidated owners' funds arising outside of the Phoenix Life business. This includes the owners' funds of the asset management and holding companies of the OPB but primarily consists of the consolidation adjustments to eliminate the cost of the OPB's investment in the Life business.

An analysis of the movement in available capital resources of the OPB's life businesses for the period 1 January 2009 to 31 December 2009 is shown below:

	With profit								
	Pearl WPF	PLL PWP	PLL BWP	SMA WPF	SPL WPF	Other	Non partici-pating	Life business owners' funds	Total life business
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total available capital resources at 1 January 2009	914	812	485	438	755	557	863	1,502	6,326
Regular surplus	200	71	49	95	12	59	115	—	601
Investment return	109	130	356	27	144	(135)	(49)	91	673
Cost of bonus	(81)	(121)	(64)	(44)	(76)	(49)	—	36	(399)
Changes in methodology and assumptions:									
Longevity	(22)	43	1	32	25	46	(7)	—	118
Expenses	(10)	(8)	—	(15)	22	(29)	10	—	(30)
Other	3	(18)	(3)	1	—	(15)	22	—	(10)
Management actions:									
Investment strategy	—	—	—	—	—	276	—	—	276
Proceeds from issue of subordinated debt	—	—	—	—	—	—	—	250	250
Dividend paid by life business	—	—	—	—	—	—	—	(528)	(528)
Corporate restructuring	—	—	—	—	—	—	—	(85)	(85)
New business and other factors:									
Intragroup capital movement	—	—	—	—	—	(16)	(607)	619	(4)
Valuation rate of interest	(113)	(78)	7	(163)	(214)	105	19	—	(437)
Adjustment for internal loans in excess of counterparty limits	—	—	—	—	—	—	149	91	240
Other	(16)	96	(28)	(77)	(25)	20	71	(57)	(16)
Total available capital resources at 31 December 2009	984	927	803	294	643	819	586	1,919	6,975

An analysis of the movement in available capital resources of the OPB's life businesses for the period 1 January 2008 to 31 December 2008 is shown below:

	With profit								
	Pearl WPF	**PLL PWP**	**PLL BWP**	**SMA WPF**	**SPL WPF**	**Other**	**Non-partici-pating**	**Life business owners' funds**	**Total life business**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Total available capital resources at 1 January 2008	1,701	—	—	—	—	87	272	535	2,595
Acquisition through business combinations	—	920	804	473	1,153	713	681	1,188	5,932
Regular surplus	209	32	60	—	—	44	118	(4)	459
Investment return	(1,119)	(157)	(400)	14	(280)	(146)	(140)	97	(2,131)
Cost of bonus	(134)	(123)	(49)	(49)	(118)	(74)	—	43	(504)
Changes in methodology and assumptions:									
Longevity	—	4	—	—	—	(5)	(2)	—	(3)
Expenses	(67)	9	—	—	—	4	11	—	(43)
Other	(4)	12	—	—	—	24	48	—	80
Management actions:									
Investment in Resolution plc	—	—	—	—	—	—	—	(6)	(6)
New business and other factors:									
Intragroup capital movement	(14)	—	—	—	—	109	(57)	(76)	(38)
Change in internal capital	—	—	—	—	—	50	(50)	—	—
Valuation rate of interest	133	—	—	—	—	(239)	—	—	(106)
Adjustment for internal loans in excess of counterparty limits	(2)	—	—	—	—	—	(36)	(288)	(326)
Adjustments for restricted surplus	—	—	—	—	—	—	—	—	—
Other	211	115	70	—	—	(10)	18	13	417
Total available capital resources at 31 December 2008	914	812	485	438	755	557	863	1,502	6,326

An analysis of the movement in available capital resources of the OPB's life businesses for the period 1 January 2007 to 31 December 2007 is shown below:

	With profit				
	Pearl	LLL	Non participating	Life business owners' funds	Total life business
	£m	£m	£m	£m	£m
Total available capital resources at 1 January 2007	1,774	115	229	777	2,895
Regular surplus	143	15	32	—	190
Investment return	54	(30)	19	14	57
Cost of bonus	(153)	(9)	—	—	(162)
Changes in methodology and assumptions					
Longevity	(51)	—	(27)	—	(78)
Expenses	133	2	9	—	144
Persistency	(19)	—	—	—	(19)
Annuity pricing	50	—	—	—	50
Other	30	1	5	—	36
Management actions:					
Investment strategy	(234)	—	—	—	(234)
Investment in Resolution plc	—	—	—	(228)	(228)
New business and other factors:					
Intragroup capital movement	(16)	(1)	(13)	(12)	(42)
Change in internal capital	(19)	—	(14)	(3)	(36)
Other	9	(6)	32	(13)	22
Total available capital resources at 31 December 2007	1,701	87	272	535	2,595

Changes in methodology and assumptions

Changes to capital resources arising from changes in methodology and assumptions occur in the normal course of the assumption setting process and reflect changes in available data inputs.

Management actions

The management actions that have had the most significant impact on available capital resources of the life assurance business of the OPB during the period 1 January 2009 to 31 December 2009 generally comprise financing activities, both to strengthen the life assurance business in the form of subordinated debt, and to pay dividends to finance corporate activities. In respect of investment strategy, the improvement in capital resources has arisen from an initiative to restructure the with profit fund of PALAL to improve the outlook for policyholders of that fund. During the period 1 January 2007 to 31 December 2008, the management actions having the most significant impact on available capital resources relate to the impact of changes in the investment strategy of the Pearl WPF and investment in Resolution plc in 2007. Further information is provided below.

Investment Strategy

During 2007, management took the decision to pursue an investment strategy within the with profit fund of Pearl which increased exposure to assets which are zero-yielding under the regulatory peak but offer improved longer term investment returns. In addition, these assets incurred higher investment expenses.

Investment in Resolution plc

At 31 December 2007, the OPB held a 25.93% equity investment in Resolution plc via a 20.13% holding carried by Pearl and a 5.80% stake carried by PGH2.

38. Risk management

The OPB is exposed to a number of risks in its business including those arising from underlying assets and liabilities. This section summarises these risks and the risk management approaches and methodologies the OPB applies.

38.1 Risk and capital management objectives

The risk management objectives and policies of the OPB are based on the requirement to protect the OPB's regulatory capital position, thereby safeguarding policyholders' guaranteed benefits whilst also ensuring the OPB can meet its different cash flow requirements. Subject to this, the OPB seeks to use available capital in pursuing investment opportunities that meet agreed return hurdles for risk taken in order to achieve increased investment returns, generating additional value for policyholders and shareholders.

In pursuing these objectives, the OPB deploys financial assets and incurs financial liabilities. Financial assets principally comprise investments in equity securities, fixed and variable rate income securities, collective investment schemes, property, derivatives, reinsurance, trade and other receivables, and banking deposits. Financial liabilities comprise investment contracts, borrowings for financing purposes, derivative liabilities and other payables.

38.2 Asset liability management ("ALM") framework

The use of financial instruments naturally exposes the OPB to the risks associated with them, chiefly, market risk, credit risk and liquidity risk.

Responsibility for agreeing the financial risk profile rests with the Board of each life company, as advised by investment managers, internal committees and the actuarial function. In setting the risk profile, the Board of each life company will receive advice from the appointed investment managers and the relevant actuary as to the potential implications of that risk profile with regard to the probability of both realistic insolvency and of failing to meet the regulatory minimum capital requirement. The actuary will also advise the extent to which the investment risk taken is consistent with the OPB's commitment to treat customers fairly.

Derivatives are used in a number of the OPB's funds, within policy guidelines agreed by the Board of each life company and overseen by Investment Committees of the Boards of each life company supported by management oversight committees. Derivatives are primarily used for efficient portfolio management or for risk hedging purposes.

More detail on the OPB's exposure to financial risk is provided in note 38.3 below.

The OPB is also exposed to insurance risk arising from its life assurance business. Life assurance risk in the OPB arises through its exposure to mortality, longevity and to variances between assumed and actual experience in factors such as persistency levels and management and administrative expenses. More details on the OPB's exposure to insurance risk is provided in note 38.5 below.

The OPB's overall exposure to investment risk is monitored by appropriate committees which agree policies for managing each type of risk on an ongoing basis, essentially within the ALM framework that has been developed to achieve investment returns in excess of amounts due in respect of insurance contracts. The effectiveness of the OPB's ALM relies on close matching of assets and liabilities arising from insurance and investment contracts, taking into account the types of benefits payable to policyholders under each type of contract. Separate portfolios of assets are maintained for with profit business, which includes all of the OPB's participating business, non linked non participating business and unit linked business.

38.3 Financial risk analysis

Transactions in financial instruments may result in the OPB assuming financial risks. This includes credit risk, market risk and liquidity risk. Each of these are described below, together with a summary of how the OPB manages them.

38.3.1. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. These obligations can relate to both on and off balance sheet assets and liabilities.

There are two principal sources of credit risk for the OPB:

- Credit risk which results from direct investment activities, including investments in fixed interest securities, equities, derivatives, collective investment vehicles, hedge funds and the placing of cash deposits; and
- Credit risk which results indirectly from activities undertaken in the normal course of business. Such activities include premium payments, outsourcing contracts, reinsurance, exposure from material suppliers and the lending of securities.

The amount disclosed in the statement of combined financial position in respect of all financial assets, together with rights secured under off-balance sheet collateral arrangements, and excluding those that back unit linked liabilities, represents the OPB's maximum exposure to credit risk.

Credit risk is managed by the monitoring of aggregate OPB exposures to individual counterparties and by appropriate credit risk diversification. The OPB manages the level of credit risk it accepts through divisional credit risk tolerances. In certain cases, protection against exposure to particular credit risk types may be achieved through use of derivatives. The credit risk borne by the shareholder on with profit policies is usually minimal unless the insurance fund is relying on shareholder support.

Quality of credit assets

An indication of the OPB's exposure to credit risk is the quality of the investments and counterparties with which it transacts. The following tables provide information regarding the aggregate credit exposure with external credit ratings:

2009	AAA	AA	A	BBB	BB	B and below	Non rated	Unit linked	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans and receivables	—	—	—	—	—	1,072	46	8	1,126
Derivatives	—	73	3,368	—	—	—	33	49	3,523
Fixed and variable rate income securities	23,690	3,873	5,343	2,474	514	400	843	521	37,658
Reinsurers' share of insurance contract liabilities	13	595	2,124	20	—	—	98	10	2,860
Cash and cash equivalents	2,141	2,437	1,003	6	—	—	92	397	6,076

2008	AAA	AA	A	BBB	BB	B and below	Non rated	Unit linked	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans and receivables	—	—	95	—	—	837	74	64	1,070
Derivatives	—	132	3,701	—	—	—	533	45	4,411
Fixed and variable rate income securities	25,958	3,893	5,478	1,808	217	263	842	705	39,164
Reinsurers' share of insurance contract liabilities	19	333	2,335	17	—	—	37	8	2,749
Cash and cash equivalents	3,020	2,861	1,170	—	8	—	3	513	7,575

2007	AAA	AA	A	BBB	BB	B and below	Non rated	Unit linked	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans and receivables	—	—	7	—	—	—	94	—	101
Derivatives	—	490	123	—	—	—	—	—	613
Fixed and variable rate income securities	10,358	1,124	1,696	1,023	302	428	452	6	15,389
Reinsurers' share of insurance contract liabilities	—	5	5	—	—	—	—	—	10
Cash and cash equivalents	46	1,488	233	—	—	—	—	256	2,023

Credit ratings have not been disclosed in the above tables for equities. Whilst the OPB is exposed to the impact of credit default on its equity holdings, this risk is not considered significant due to the spread of holdings. Non-equity based derivatives are included in the credit risk table above.

Credit ratings have also not been disclosed in the above tables for holdings in collective investment schemes. The risk of loss to the OPB due to credit default on its holdings in collective investment schemes is considered low due to the tradeable nature of these investments.

It is also the OPB's policy to maintain accurate and consistent internal risk ratings across its asset portfolio. This enables management to focus on the applicable risks and to compare credit exposures across all lines of business, geographical regions and products. The rating system is supported by a variety of financial analytics combined with market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories of assets and are derived in accordance with the OPB's rating policy. The attributable risk ratings are assessed and updated regularly.

A further indicator of the quality of the OPB's financial assets is the extent to which they are neither past due nor impaired. The following table gives information regarding the ageing of financial assets that are past due but not impaired and the carrying value of financial assets that have been impaired.

2009	Neither past due nor impaired	Less than 30 days	30-90 days	Greater than 90 days	Impaired	Unit linked	Carrying value
	£m	£m	£m	£m	£m	£m	£m
Loans and receivables	1,116	—	—	—	2	8	1,126
Derivatives	3,474	—	—	—	—	49	3,523
Fixed and variable rate income securities	37,137	—	—	—	—	521	37,658
Reinsurers' share of insurance contract liabilities	2,850	—	—	—	—	10	2,860
Reinsurance receivables	264	—	—	—	—	—	264
Prepayments and accrued income	518	84	—	1	—	19	622
Other receivables	765	6	1	6	3	—	781
Cash and cash equivalents	5,679	—	—	—	—	397	6,076

2008	Neither past due nor impaired	Less than 30 days	30-90 days	Greater than 90 days	Impaired	Unit linked	Carrying value
	£m	£m	£m	£m	£m	£m	£m
Loans and receivables	82	—	—	—	924	64	1,070
Derivatives	4,366	—	—	—	—	45	4,411
Fixed and variable rate income securities	38,459	—	—	—	—	705	39,164
Reinsurers' share of insurance contract liabilities	2,741	—	—	—	—	8	2,749
Reinsurance receivables	286	—	—	—	—	—	286
Prepayments and accrued income	695	5	1	2	—	—	703
Other receivables	344	15	3	54	—	—	416
Cash and cash equivalents	7,062	—	—	—	—	513	7,575

2007	Neither past due nor impaired	Less than 30 days	30-90 days	Greater than 90 days	Impaired	Unit linked	Carrying value
	£m	£m	£m	£m	£m	£m	£m
Loans and receivables	101	—	—	—	—	—	101
Derivatives	613	—	—	—	—	—	613
Fixed and variable rate income securities	15,383	—	—	—	—	6	15,389
Reinsurers' share of insurance contract liabilities	10	—	—	—	—	—	10
Reinsurance receivables	17	—	—	—	—	—	17
Prepayments and accrued income	261	9	1	3	—	—	274
Other receivables	86	4	—	6	—	—	96
Cash and cash equivalents	1,767	—	—	—	—	256	2,023

Assets backing unit linked business have not been analysed in these tables as the credit risk on such financial assets is borne by the policyholders. However, these assets have been included as a separate column in these tables to reconcile the information to the primary financial statements. Shareholder credit exposure on unit linked assets is limited to the level of asset manager fee which is dependent on the underlying assets. In certain circumstances the shareholder funds may be used to re-establish unit linked assets in line with regulatory and policyholder expectations.

Concentration of credit risks

Concentration of credit risk might exist where the OPB has significant exposure to an individual counterparty or a group of counterparties with similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The OPB has most of its counterparty risk within its life business and this is monitored by the counterparty limits contained within the investment guidelines and investment management agreements, overlaid by regulatory requirements.

The OPB is also exposed to concentration risk with outsourced service providers. This is due to the nature of the outsourced services market. The OPB operates a policy to manage service outsourcer counterparty exposures and the impact from default is reviewed regularly by executive committees and measured though the ICA stress and scenario testing.

Collateral

The credit risk of the OPB is mitigated, in certain circumstances, by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for securities lending, certain reinsurance arrangements and to provide security against the maturity proceeds of derivative financial instruments. Management monitors the market value of the collateral received, requests additional collateral when needed and performs an impairment valuation when impairment indicators exist and the asset is not fully secured.

38.3.2 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest risk, currency risk and other price risk.

The OPB is mainly exposed to market risk as a result of:

- the mismatch between liability profiles and the related asset investment portfolios;
- the investment of surplus assets including shareholder reserves yet to be distributed, surplus assets within the with profit funds and assets held to meet regulatory capital and solvency requirements; and
- the income flow of management charges from the invested assets of the business.

The OPB manages levels of market risk that it accepts through an Investment Management policy that determines:

- the constituents of market risk for the OPB;
- the basis used to fair value financial assets and liabilities;
- the asset allocation and portfolio limit structure;
- diversification from benchmarks by type of instrument and geographical area;
- the net exposure limits by each counterparty or group of counterparties, geographical and industry segments;
- control over hedging activities;
- reporting of market risk exposures and activities; and
- monitoring of compliance with market risk policy and review of market risk policy for pertinence to the changing environment.

All operations comply with regulatory requirements relating to the taking of market risk.

Interest risk

Interest risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates due to the effect such movements have on the value of interest-bearing assets and on the value of future guarantees provided under certain contracts of insurance.

Interest risk is managed by matching assets and liabilities where practicable and by entering into swap arrangements where appropriate. This is particularly the case for the non participating funds. For participating business, some element of investment mismatching is permitted where it is consistent with the principles of Treating Customers Fairly. The with profit funds of the OPB provide capital to allow such mismatching to be effected. In practice, the life companies of the OPB maintain an appropriate mix of fixed and variable rate instruments according to the underlying insurance or investment contracts and will review this at regular intervals to ensure that overall exposure is kept within the risk profile agreed for each particular fund. This also requires the maturity profile of these assets to be managed in line with the liabilities to policyholders.

The sensitivity analysis for interest risk indicates how changes in the fair value or future cash flows of a financial instrument arising from changes in market interest rates at the reporting date result in a change in profit after tax and in equity. It takes into account the effect of such changes in market interest rates on all assets and liabilities that contribute to the OPB's reported profit after tax and in equity.

With profit business and non profit business within the with profit funds are exposed to interest risk as guaranteed liabilities are valued relative to market interest rates and investments include fixed interest stocks and derivatives. For with profit business the profit or loss arising from mismatches between such assets and liabilities is largely offset by increased or reduced discretionary policyholder benefits. The contribution of these funds to the OPB's result is determined primarily by either the shareholders' share of the declared annual bonus or by the shareholders' interest in any change in value in the capital advanced to the OPB's with profit funds.

In the non participating funds, policy liabilities are duration matched with primarily fixed interest securities, with the result that sensitivity to changes in interest rates is very low.

An increase of 1% in interest rates, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full financial year and in equity of £61 million (2008: £167 million, 2007: £82 million). A decrease of 1% in interest rates, with all other variables held constant, would result in an additional profit after tax in respect of a full financial year and an increase in equity of £89 million (2008: £86 million, 2007: £93 million).

Price risk

The OPB's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices other than from interest rate and currency fluctuations. This is due to factors specific to individual instruments, their issuers or factors affecting all instruments traded in the market.

Accordingly, the OPB limits its exposure to any one counterparty in its investment portfolios and to any one foreign market.

The portfolio of marketable equity securities, and property investments, which is carried in the statement of combined financial position at fair value, has exposure to price risk. The OPB's objective in holding these assets is to earn higher long-term returns by investing in a diverse portfolio of high quality equities and properties. Portfolio characteristics are analysed regularly and price risks are actively managed in line with investment mandates. The OPB's holdings are diversified across industries, and concentrations in any one company or industry are limited.

Equity and property price risk is primarily borne in respect of assets held in with profit or unit linked funds. For unit linked funds this risk is borne by policyholders and asset movements directly impact unit prices and hence policy values. For with profit funds policyholders' future bonuses will be impacted by the investment returns achieved and hence the price risk. In addition some equity investments are held in respect of equity holders' funds. The OPB as a whole is exposed to price risk fluctuations impacting the income flow of management charges from the invested assets of all funds.

Equity and property price risk is managed through the agreement and monitoring of financial risk profiles that are appropriate for each of the OPB's life funds in respect of maintaining adequate regulatory capital and Treating Customers Fairly. This is largely achieved through asset class diversification.

The impact of non government fixed interest securities and, *inter alia*, the change in market credit spreads during the year are fully reflected in the values shown in these financial statements. Similarly, the value of derivatives that the OPB holds takes into account fully the changes in swap spreads.

The sensitivity analysis for equity and property price risk illustrates how a change in the fair value of equities and properties affects the OPB's result. It takes into account the effect of such changes in equity and property prices on all assets and liabilities that contribute to the OPB's reported profit after tax and in equity.

A 10% decrease in equity/property prices, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full financial year and in equity of £17 million (2008: £165 million; 2007: £114 million).

A 10% increase in equity/property prices, with all other variables held constant, would result in an increase in the profit after tax in respect of a full financial year and in equity of £13 million (2008: £165 million; 2007: £114 million).

There is also an exposure to spread changes affecting the prices of corporate bonds and derivatives. This exposure applies to with profit funds, unit linked funds, non profit funds (where risks and rewards fall wholly to shareholders) and in shareholders' funds.

A 100 basis point widening of credit spreads, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full financial year and in equity of £196 million (2008: £248 million).

A 100 basis point narrowing of credit spreads, with all other variables held constant, would result in an increase in the profit after tax in respect of a full financial year and in equity of £216 million (2008: £248 million).

Currency risk

The OPB's principal transactions are carried out in sterling and therefore its exchange risk is limited principally to foreign operations.

The OPB's foreign operations (taken to be those denominated in non-sterling) generally invest in assets in the same currency denomination as their liabilities, so foreign currency mismatch risk between assets and liabilities is largely mitigated. Consequently, the foreign currency risk from the foreign operations mainly arises when the assets and liabilities denominated in a foreign currency are translated into sterling.

The OPB's financial assets are primarily denominated in the same currencies as its insurance and investment liabilities. Thus the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled and, indirectly, from the earnings of UK companies arising abroad.

Certain life operations with profit funds have an exposure to overseas assets which is not driven by liability considerations. The purpose of this exposure is to reduce overall risk whilst maximising returns by diversification. This exposure is limited and managed through investment mandates which are subject to the oversight of the Investment Committees of the Boards of each life company. Fluctuations in exchange rates from holdings in overseas assets are hedged against currency risks.

Sensitivity of profit after tax and in equity to fluctuations in currency exchange rates is not considered significant at 31 December 2009, since unhedged exposure to foreign currency was relatively low.

38.3.3. Liquidity risk

Liquidity risk is defined as the failure of the OPB to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. The OPB has exposure to liquidity risk as a result of servicing its external debt and equity investors, and from the operating requirements of their subsidiaries. The OPB's subsidiaries have exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash-flow requirements.

The OPB's Boards have defined a number of governance objectives and principles and the liquidity risk frameworks of each subsidiary are designed to ensure that:

- liquidity risk is managed in a manner consistent with the subsidiary companies Boards' strategic objectives, risk appetite and Principles and Practices of Financial Management ("PPFM");
- cash flows are appropriately managed and the reputations of the OPB are safeguarded; and

- appropriate information on liquidity risk is available to those making decisions.

The OPB's policy is to maintain sufficient liquid assets of suitable credit quality at all times and, where appropriate, to have access to borrowings so as to be able to meet all foreseeable current liabilities as they fall due in a cost-effective manner. Forecasts are prepared regularly to predict required liquidity levels over both the short- and medium-term allowing management to respond appropriately to changes in circumstances.

Some of the OPB's commercial property investments are held through a unit trust managed by Ignis Asset Management Limited. This unit trust has the power to restrict and/or suspend withdrawals, which would, in turn, affect liquidity. To date, the unit trust has continued to process both investments and realisations in a normal manner and has not imposed any restrictions or delays.

The following tables provide a maturity analysis showing the remaining contractual maturities of the OPB's undiscounted financial liabilities and associated interest. Liabilities under insurance contract contractual maturities are based on the estimated timing of the amounts recognised in the statement of combined financial position in accordance with the requirements of IFRS 4:

2009	**1 year or less on demand**	**1-5 years**	**Greater than 5 years**	**No fixed term**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Liabilities under insurance contracts	10,141	14,539	23,748	1,863	50,291
Investment contracts	8,570	—	—	—	8,570
Borrowings	103	2,550	2,597	258	5,508
Deposits received from reinsurers	38	138	522	—	698
Derivatives	1,441	347	1,511	—	3,299
Net asset value attributable to unit holders	946	—	—	—	946
Obligations for repayment of collateral received	3,054	158	412	484	4,108
Reinsurance payables	17	—	—	—	17
Payables related to direct insurance contracts	693	66	—	—	759
Accruals and deferred income	173	3	—	—	176
Other payables	435	8	—	317	760

2008	1 year or less on demand	1-5 years	Greater than 5 years	No fixed term	Total
	£m	£m	£m	£m	£m
Liabilities under insurance contracts	16,891	13,870	19,717	2,130	52,608
Investment contracts	7,909	—	—	—	7,909
Borrowings	661	2,095	2,377	277	5,410
Deposits received from reinsurers	39	148	549	—	736
Derivatives	813	585	4,594	—	5,992
Net asset value attributable to unit holders	1,920	—	—	—	1,920
Obligations for repayment of collateral received	3,133	667	414	1,124	5,338
Reinsurance payables	20	1	1	—	22
Payables related to direct insurance contracts	731	—	—	—	731
Accruals and deferred income	233	—	—	—	233
Other payables	673	40	20	—	733

2007	1 year or less on demand	1-5 years	Greater than 5 years	No fixed term	Total
	£m	£m	£m	£m	£m
Liabilities under insurance contracts	7,930	3,344	5,375	2,309	18,958
Investment contracts	3,958	—	—	—	3,958
Borrowings	136	396	785	328	1,645
Derivatives	116	17	236	—	369
Obligations for repayment of collateral received	3,227	—	—	494	3,721
Payables related to direct insurance contracts	165	—	—	—	165
Accruals and deferred income	52	—	—	—	52
Other payables	1,243	17	4	—	1,264

Investment contract policyholders have the option to terminate or transfer their contracts at any time and to receive the surrender or transfer value of their policies. Although these liabilities are payable on demand, and are therefore included in the contractual maturity analysis as due within one year, the OPB does not expect all these amounts to be paid out within one year of the reporting date.

A significant proportion of the OPB's financial assets are held in gilts, cash, supranationals and highly rated securities which the OPB considers sufficient to meet the liabilities as they fall due.

38.4 *Unit linked contracts*

For unit linked contracts the OPB matches all the liabilities with assets in the portfolio on which the unit prices are based. There is therefore no interest, price, currency or credit risk for the OPB on these contracts.

In extreme circumstances, the OPB could be exposed to liquidity risk in its unit linked funds. This could occur where a high volume of surrenders coincides with a tightening of liquidity in a unit linked fund to the point where assets of that fund have to be sold to meet those withdrawals. Where the fund affected consists of property, it can take several months to complete a sale and this would impede the proper operation of the fund. In these situations, the OPB considers its risk to be low since there are steps that can be taken first within the funds themselves to both ensure the fair treatment of all investors in those funds and to protect the OPB's own risk exposure.

38.5 Insurance risk

Insurance risk refers to the risk that the frequency or severity of insured events may be worse than expected and includes expense risk. The OPB's life segment contracts include the following sources of insurance risk:

- Mortality – Higher than expected number of death claims on assurance products and occurrence of one or more large claims;
- Longevity – Faster than expected improvements in life expectancy on immediate and deferred annuity products;
- Morbidity – Higher than expected number of serious illness claims or more sickness claims which last longer on income protection policies;
- Expenses – Policies cost more to administer than expected;
- Lapses – The numbers of policies terminating early is different to that expected in a way which increases expected claims costs or expenses or reduces future profits; and
- Options – Unanticipated changes in policyholder option exercise rates giving rise to increased claims costs.

Objectives and policies for mitigating insurance risk

The OPB uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, experience analyses, external data comparisons, sensitivity analyses, scenario analyses and stress testing.

The profitability of the run-off of the closed long-term insurance businesses within the OPB depends to a significant extent on the values of claims paid in the future relative to the assets accumulated to the date of claim. Typically, over the lifetime of a contract, premiums and investment returns exceed claim costs in the early years and it is necessary to set aside these amounts to meet future obligations. The amount of such future obligations is assessed on actuarial principles by reference to assumptions about the development of financial and insurance risks.

It is therefore necessary for the Board of each life company to make decisions, based on actuarial advice, which ensure an appropriate accumulation of assets relative to liabilities. These decisions include investment policy, bonus policy and, where discretion exists, the level of payments on early termination.

Sensitivities

Insurance liabilities are sensitive to changes in risk variables, such as prevailing market interest rates, currency rates and equity prices, since these variations alter the value of the financial assets held to meet obligations arising from insurance contracts and changes in investment conditions also have an impact on the value of insurance liabilities themselves. Additionally, insurance liabilities are sensitive to the assumptions which have been applied in their calculation, such as mortality and lapse rates. Sometimes allowance must also be made for the effect on future assumptions of management or policyholder actions in certain economic scenarios. This could lead to changes in assumed asset mix, or future bonus rates. The most significant non-economic sensitivities arise from mortality, longevity and lapse risk.

A decrease of 5% in assurance mortality, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year and an increase in equity of £27 million (2008: £19 million, 2007: £4 million).

An increase of 5% in assurance mortality, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year and a decrease in equity of £27 million (2008: £19 million, 2007: £4 million).

A decrease of 5% in annuitant longevity, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year and an increase in equity of £91 million (2008: £114 million, 2007: £18 million).

An increase of 5% in annuitant longevity, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year and a decrease in equity of £83 million (2008: £142 million, 2007: £22 million).

A decrease of 25% in lapse rates, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year and a decrease in shareholders' equity of £50 million (2008: £204 million, 2007: £41 million).

An increase of 25% in lapse rates, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year and an increase in shareholders' equity of £41 million (2008: £99 million, 2007: £18 million).

38.5.1 Assumptions

Valuation of participating insurance and investment contracts

For participating business, which is with profit business (insurance and investment contracts), the insurance contract liability is calculated in accordance with the FSA's realistic capital regime, adjusted to exclude the shareholders' share of future bonuses and the associated tax liability as required by FRS 27 "Life Assurance". This is a market consistent valuation, which involves placing a value on liabilities similar to the market value of assets with similar cash flow patterns.

Valuation of non participating insurance contracts

The non participating insurance contract liabilities are determined using either a net premium or gross premium valuation method.

Process used to determine assumptions

For participating business in realistic basis companies the assumptions about future demographic trends are intended to be "best estimates". They are determined after considering the companies' recent experience and/or relevant industry data. Economic assumptions are market consistent.

For other business, demographic assumptions are derived by adding a prudent margin to best estimate assumptions. Economic assumptions are prudent estimates of the returns expected to be achieved on the assets backing the liabilities.

During the year a number of changes were made to assumptions to reflect changes in expected experience or to harmonise the approach across the OPB. The impact of material changes during the year were as follows:

	Increase/ (decrease) in insurance liabilities 2009	**Increase/ (decrease) in insurance liabilities 2008**	**Increase/ (decrease) in insurance liabilities 2007**
	£m	**£m**	**£m**
Change in EB 16 annuity pricing assumptions	10	—	(119)
Change in longevity assumptions	(73)	15	34
Change in persistency assumptions	94	12	29
Change in expense assumptions	—	(126)	(15)
SERP changes	—	(59)	—

Valuation interest rate

For realistic basis companies the liabilities are determined stochastically using an appropriate number of risk-neutral scenarios produced by a proprietary economic scenario generator calibrated to market conditions and gilt yields as at the valuation date.

For funds not subject to realistic reporting, the method used to determine valuation interest rates generally follows the regulations set out in the Prudential Sourcebook for Insurers.

Assets are firstly hypothecated to classes of business being valued. The valuation interest rates for each block of business are based on the expected returns of the hypothecated assets. The yield is then adjusted to make allowance for credit risk, liquidity risk, reinvestment risk and investment management expenses.

Valuation interest rates (after tax for life policies) are typically in the following ranges:

	2009	2008	2007
	%	%	%
Life policies	2.14 – 3.82	2.15 – 5.75	3.60 – 4.60
Pension policies	2.76 – 4.84	1.19 – 6.65	4.00 – 4.80

Expense inflation

Expenses are assumed to increase at the rate of increase in the Retail Price Index ("RPIX") plus fixed margins in accordance with the various Management Service Agreements ("MSAs") the OPB has in place with outsourced service providers. For with profit business the rate of RPI inflation is determined within each stochastic scenario. For other business it is based on the Bank of England inflation spot curve. For MSAs with contractual increases set by reference to national average earnings inflation, this is approximated as RPI inflation plus 1%. In instances in which inflation risk is not mitigated, a further margin for adverse deviations may then be added to the rate of expense inflation.

Mortality and longevity rates

Mortality rates are based on published tables, adjusted appropriately to take account of changes in the underlying population mortality since the table was published, company experience and forecast changes in future mortality. Where appropriate, a margin is added to assurance mortality rates to allow for adverse future deviations. Annuitant mortality rates are adjusted to make allowance for future improvements in pensioner longevity.

Lapse and surrender rates (persistency)

The assumed rates for surrender and voluntary premium discontinuance depend on the length of time a policy has been in force and the relevant company. Surrender or voluntary premium discontinuances are only assumed for realistic basis companies. Withdrawal rates used in the valuation of with profit policies are based on observed experience and adjusted when it is considered that future policyholder behaviour will be influenced by different considerations than in the past. In particular, it is assumed that withdrawal rates for unitised with profit contracts will be higher on policy anniversaries on which Market Value Adjustments do not apply.

Discretionary participating bonus rate

For realistic basis companies, the regular bonus rates assumed in each scenario are determined in accordance with each company's PPFM. Final bonuses are assumed at a level such that maturity payments will equal asset shares subject to smoothing rules set out in the PPFM.

Policyholder options and guarantees

Some of the OPB's products give potentially valuable guarantees, or give options to change policy benefits which can be exercised at the policyholders' discretion. These products are described below.

Most with profit contracts give a guaranteed minimum payment on a specified date or range of dates or on death if before that date or dates. For pensions' contracts, the specified date is the policyholder's chosen retirement date or a range of dates around that date. For endowment contracts, it is the maturity date of the contract. For with profit bonds it is often a specified anniversary of commencement, in some cases with further dates thereafter. Annual bonuses when added to with profit contracts usually increase the guaranteed amount.

There are guaranteed surrender values on a small number of older contracts.

Some pensions' contracts include guaranteed annuity options (See deferred annuities in section 38.5.2 for details). The total amount provided in the with profit and non profit funds in respect of the future costs of guaranteed annuity options are £1,469 million (2008: £1,653 million, 2007: £418 million) and £52 million (2008: £31 million, 2007: £nil) respectively.

In common with other life companies in the UK which have written pension transfer and opt out business, the OPB has set up provisions for the review and possible redress relating to personal pension policies. These provisions, which have been calculated from data derived from detailed file reviews of specific cases and using a certainty equivalent approach, which give a result very similar to a market consistent valuation, are included in liabilities arising under insurance contracts. The total amount provided in the with profit funds and non profit funds in respect of the review and possible redress relating to pension policies, including associated costs, are £325 million (2008: £371 million, 2007: £349 million) and £46 million (2008: £1 million, 2007: £nil) respectively.

With profit deferred annuities participate in profits only up to the date of retirement. At retirement, a guaranteed cash option allows the policyholder to commute the annuity benefit into cash on guaranteed terms.

38.5.2 Managing product risk

The following sections give an assessment of the risks associated with the OPB's main life assurance products and the ways in which the OPB manages those risks.

	2009 Gross		2009 Reinsurance	
	Insurance contracts	**Investment contracts with DPF**	**Insurance contracts**	**Investment contracts with DPF**
	£m	**£m**	**£m**	**£m**
With profit funds:				
Pensions:				
Deferred annuities – with guarantees	8,821	73	392	—
Deferred annuities – without guarantees	1,550	112	—	—
Immediate annuities	3,679	—	671	—
Unitised with profit	1,279	9,051	90	—
Total pensions	15,329	9,236	1,153	—
Life:				
Immediate annuities	74	—	7	—
Unitised with profit	1,398	601	40	—
Life with profit	7,725	—	12	—
Total life	9,197	601	59	—
Other	2,290	6	92	—
Non profit funds:				
Deferred annuities				
– with guarantees	117	—	59	—
– without guarantees	1,012	5	474	—
Immediate annuities	8,073	—	704	—
Protection	610	—	290	—
Unit linked	1,888	1,423	13	—
Other	449	55	16	—
	38,965	11,326	2,860	—

	2008 Gross		2008 Reinsurance	
	Insurance contracts	Investment contracts with DPF	Insurance contracts	Investment contracts with DPF
	£m	£m	£m	£m
With profit funds:				
Pensions:				
Deferred annuities – with guarantees	9,517	79	338	—
Deferred annuities – without guarantees	1,693	121	—	—
Immediate annuities	3,636	—	710	—
Unitised with profit	1,503	9,030	93	—
Total pensions	16,349	9,230	1,141	—
Life:				
Immediate annuities	74	—	9	—
Unitised with profit	1,742	1,073	49	—
Life with profit	8,340	3	12	—
Total life	10,156	1,076	70	—
Other	1,900	329	65	—
Non profit funds:				
Deferred annuities				
– with guarantees	144	—	61	—
– without guarantees	1,227	7	585	—
Immediate annuities	7,674	—	474	—
Protection	587	—	304	—
Unit linked	1,721	1,385	24	—
Other	675	148	25	—
	40,433	12,175	2,749	—

	2007 Gross		2007 Reinsurance	
	Insurance contracts	Investment contracts with DPF	Insurance contracts	Investment contracts with DPF
	£m	£m	£m	£m
With profit funds:				
Pensions:				
Deferred annuities – with guarantees	3,299	—	—	—
Deferred annuities – without guarantees	12	124	—	—
Immediate annuities	875	—	—	—
Unitised with profit	312	6,183	—	—
Total pensions	4,498	6,307	—	—
Life:				
Immediate annuities	26	—	—	—
Unitised with profit	10	288	—	—
Life with profit	2,177	—	10	—
Total life	2,213	288	10	—
Other	1,510	299	—	—
Non profit funds:				
Deferred annuities				
– with guarantees	19	—	—	—
– without guarantees	53	—	—	—
Immediate annuities	3,724	—	—	—
Protection	36	—	—	—
Other	11	—	—	—
	12,064	6,894	10	—

With profit Fund (Unitised and Traditional)

The OPB operates a number of with profit funds in the UK, in which the with profit policyholders benefit from a discretionary annual bonus (guaranteed once added in most cases) and a discretionary final bonus. Non profit business is also written in some of the with profit funds and some of the funds may include immediate annuities and deferred annuities with Guaranteed Annuity Rates ("GAR").

The investment strategy of each fund differs, but is broadly to invest in a mixture of fixed interest investments and equities and/or property in such proportions as is appropriate to the investment risk exposure of the fund and its capital resources.

The OPB has significant discretion regarding investment policy, bonus policy and early termination values. The process for exercising discretion in the management of the with profit funds is set out in the PPFM for each with profit fund and is overseen by with profit committees. Advice is also taken from the with profit actuary of each company which has a with profit fund. Compliance with the PPFM is reviewed annually and reported to the FSA and policyholders.

The bonuses are designed to distribute to policyholders a fair share of the return on the assets in the with profit funds together with other elements of the experience of the fund. The shareholders of the OPB are entitled to receive one-ninth of the cost of bonuses declared for some funds and £nil for others.

Unitised and traditional with profit policies are exposed to equivalent risks, the main difference being that unitised with profit policies purchase notional units in a with profit fund whereas traditional with profit policies do not. Benefit payments for unitised policies are then dependent on unit prices at the time of a claim, although charges may be applied. A unitised with profit fund price is typically guaranteed not to fall and increases in line with any discretionary bonus payments over the course of one year.

Deferred annuities

Deferred annuity policies are written to provide either a cash benefit at retirement, which the policyholder can use to buy an annuity on the terms then applicable, or an annuity payable from retirement. The policies contain an element of guarantee expressed in the form that the contract is written in i.e. cash or annuity. Deferred annuity policies written to provide a cash benefit may also contain an option to convert the cash benefit to an annuity benefit on guaranteed terms; these are known as GAR policies. Deferred annuity policies written to provide an annuity benefit may also contain an option to convert the annuity benefit into cash benefits on guaranteed terms; these are known as Guaranteed Cash Option ("GCO") policies.

During the last decade, interest rates and inflation have fallen and life expectancy has increased more rapidly than originally anticipated. Deferred annuity policies which are written to provide annuity benefits are managed in a similar manner to immediate annuities and are exposed to the same risks.

The guaranteed terms on GAR policies are more favourable than the annuity rates currently available in the market available for cash benefits. The guaranteed terms on GCO policies are currently not valuable.

The option provisions on GAR policies are particularly sensitive to downward movements in interest rates, increasing life expectancy and the proportion of customers exercising their option. Adverse movements in these factors could lead to a requirement to increase reserves which could adversely impact profit and potentially require additional capital. In order to address the interest rate risk (but not the risk of increasing life expectancy or changing customer behaviour with regard to exercise of the option), insurance subsidiaries within the OPB has purchased derivatives that provide protection against an increase in liabilities and have thus reduced the sensitivity of profit to movements in interest rates.

The OPB seeks to manage this risk in accordance with both the terms of the issued policies and the interests of customers, and has obtained external advice supporting the manner in which it operates the long-term funds in this respect.

Immediate annuities

This type of annuity is purchased with a single premium at the outset, and is paid to the policyholder for the remainder of their lifetime. Payments may also continue for the benefit of a surviving spouse or partner after the annuitant's death. Annuities may be level, or escalate at a fixed rate, or may escalate in line with a price index and may be payable for a minimum period irrespective of whether the policyholder remains alive.

The main risks associated with this product are longevity and investment risks. Longevity risk arises as the annuities are paid for the lifetime of the policyholder, and is managed through the initial pricing of the annuity and through reinsurance (appropriately collateralised) or transfer of existing liabilities. Annuities may also be a partial 'natural hedge' against losses incurred in protection business in the event of increased mortality (and vice versa) although the extent to which this occurs will depend on the similarity of the demographic profile of each book of business.

The pricing assumption for mortality risk is based on both historic internal information and externally generated information on mortality experience, including allowances for future mortality improvements. Pricing will also include a contingency margin for adverse deviations in assumptions.

Investment risk depends on the extent to which the annuity payments under the contracts have been matched by suitable assets which is managed under the Asset Liability Management Committee. Asset/liability modelling is used to monitor this position on a regular basis.

Protection

These contracts are typically secured by the payment of a regular premium payable for a period of years providing benefits payable on certain events occurring within the period. The benefits may be a single lump sum or a series of payments and may be payable on death, serious illness or sickness.

The main risk associated with this product is the claims experience and this risk is managed through the initial pricing of the policy (based on actuarial principles), the use of reinsurance and a clear process for administering claims.

39. Operating leases

Operating lease rentals charged within administrative expenses amounted to £15 million (2008: £7 million, 2007: £nil). The OPB has commitments under non-cancellable operating leases as set out below:

	2009	2008	2007
	£m	£m	£m
Not later than one year	11	11	2
Later than one year and no later than five years	42	43	6
Later than five years	54	65	5
	107	119	13

The principal operating lease commitments primarily concern office space located at Bothwell Street,, Glasgow; St. Vincent Street, Glasgow; Juxon House, London and Harcourt Street, London.

40. Commitments

	2009	2008	2007
	£m	£m	£m
To subscribe to private equity funds and other unlisted assets	520	779	851
To purchase, construct or develop investment property	108	—	—
For repairs, maintenance or enhancements of investment property	3	—	—

41. Related party transactions

The OPB has related party transactions with its key management personnel, TDR Capital LLP group of companies, Sun Capital Partners Limited and its staff pension schemes.

Transactions with key management personnel

Major decisions for the OPB are deemed to be made by the Directors of the Acquired Companies. Transactions with Directors are as follows:

	2009	2008	2007
	£	£	£
Remuneration including salaries, bonuses and other benefits	2,079,468	3,695,722	1,431,303

Transactions with TDR Capital LLP group of companies and Sun Capital Partners Limited

M Dale and S J Robertson are designated members of TDR Capital LLP, the parent entity of TDR Capital Nominees Limited, and were also Directors of PGH (LCB) Limited and PGH (TC2) Limited until 2 September 2009. M C Allen and W A Mclntosh are Directors of Sun Capital Partners Limited and were also Directors of PGH (LCA) Limited and PGH (TC2) Limited until 2 September 2009. H E M Osmond is a Director of Sun Capital Partners Limited and was also a Director of PGH (LCA) until 2 September 2009.

On 4 July 2007, the OPB purchased 79,522 shares in Drago Real Estate Partners Limited for consideration of €8,379,190. 44,695 of these shares were purchased for €4,709,470 from Directors of Sun Capital Partners Limited including H E M Osmond and W A Mclntosh.

On 20 November 2007, the OPB purchased 16,200,000 shares in Sant Midco Holdings BV, a property investment portfolio holding company, for consideration of €121,000,000 financed in part through loans of €93,461,000 of which €92,413,000 were from Directors of Sun Capital Partners Limited including H E M Osmond and W A Mclntosh, TDR Capital LLP and Drago Real Estate Partners Limited. These loans were all interest free and were settled with shares of Sant Midco Holdings BV. Following this intermediary step, the OPB has retained an interest in Sant Midco Holdings BV through Sant Topco Holdings I S.a.r.l.

A subsidiary of Sant Topco Holdings I S.a.r.l. pays a financial consulting fee to Sun Capital Partners Limited of €375,000 per annum and this amount was paid in each of 2007, 2008 and 2009.

On 3 June 2008, the OPB entered into two uncollateralised total return swaps with TDR Capital Nominees Limited in relation to the performance of certain investments of Axial Income Opportunities S.a.r.l. As at 31 December 2009, a fair value of £27.1 million (2008: £28.0 million) had been attributed to these swaps in the OPB's accounts and interest of £5.9 million (2008: £nil) had been charged. At 31 December 2009, interest of £0.3 million was outstanding (2008: £nil).

During the years, the OPB entered into the following transactions with Sun Capital Partners Limited and TDR Capital LLP:

	Transactions		
	2009	**2008**	**2007**
	£m	**£m**	**£m**
Sun Capital Partners Limited			
Shareholder monitoring and investment management fees	1.5	1.8	1.7
TDR Capital LLP			
Shareholder monitoring, investment management and deal related fees	2.5	34.1	5.6

None of these amounts were outstanding at the end of each year.

Transactions with Staff Pension Schemes

During the years, the OPB entered into the following transactions with the Pearl Scheme:

	Transactions		
	2009	**2008**	**2007**
	£m	**£m**	**£m**
Investment management fees	1.4	1.0	0.4
Reimbursement of expenses	—	(0.6)	(1.6)
Payment of administrative expenses	(3.6)	(2.0)	—
	(2.2)	(1.6)	(1.2)

	Balances outstanding		
	2009	2008	2007
	£m	£m	£m
Investment management fees	1.4	1.0	0.4
Reimbursement of expenses	—	—	(1.6)
Payment of administrative expenses	(0.3)	(0.7)	—
	1.1	0.3	(1.2)

The Pearl Scheme has invested in collective investment schemes that are controlled by the OPB. At 31 December 2009, Pearl Scheme held 1,118,197 (2008: 1,118,197; 2007: nil) units in the Axial Systematic Strategies Fund and 115,477,491 (2008 and 2007: nil) units in the Ignis Liquidity Fund. The fair value of these investments at 31 December 2009 was £154 million (2008: £265 million; 2007: £nil) and £115 million respectively (2008 and 2007: £nil).

During the years, the OPB entered into the following transactions with the PGL Scheme:

	Transactions		
	2009	2008	2007
	£m	£m	£m
Investment management fees	2.1	2.2	2.1

	Balances outstanding		
	2009	2008	2007
	£m	£m	£m
Investment management fees	0.5	0.8	0.8

Information on all other transactions with the pension schemes is provided in note 27.

Transactions with Phoenix Group Holdings

During the years, the OPB entered into the following transactions with PGH:

	Transactions		
	2009	2008	2007
	£m	£m	£m
Loan interest expense	(6.4)	—	—

	Balances outstanding		
	2009	2008	2007
	£m	£m	£m
Borrowings:			
£209 million PIK note and facility (note 17(h))	(253.5)	—	—
£325 million loan note (note 17(i))	(325.0)	—	—
£16.8 million loan (note 17(k))	(17.0)	—	—
£17 million loan (note 17(l))	(14.6)	—	—
	(610.1)	—	—
Accrued loan interest	(2.6)	—	—
Inter-company balances	(107.9)	—	—
	(720.6)	—	—

42. Contingent liabilities

In the normal course of business the OPB is exposed to certain legal issues, which involve litigation and arbitration, and as at the period end, the OPB has a contingent liability in this regard.

Following a previous acquisition by the OPB, the shares in PLL and certain loans were transferred from the non profit fund to the shareholder fund of PAGI at their admissible regulatory value. HM Revenue & Customs ("HMRC") challenged the tax treatment of these transfers in the year ended 31 December 2004 and litigation was expected to follow in 2010. On 21 April 2010, HMRC withdrew from the impending litigation.

The OPB's subsidiary undertaking, London Life Limited provided information to the FSA on its categorisation of working capital to owners' funds in 2006. The Directors are confident in their treatment, which is supported by legal and actuarial advice, but note that the FSA have not concluded their review into the matter. A contingent liability of £17 million exists if London Life Limited were required to transfer this working capital back to policyholder funds.

43. Group entities

The principal subsidiary undertakings of the OPB are as follows:

	Country of incorporation and principal place of operation	Class of shares held (wholly-owned unless otherwise indicated)
Insurance companies		
BA (GI) Limited (general insurance company)	UK	Ordinary shares of £0.05
London Life Limited	UK	Ordinary shares of £1
National Provident Life Limited	UK	Ordinary shares of £1
NPI Limited	UK	Ordinary shares of £1
Pearl Assurance plc	UK	'A' ordinary shares of £0.05
PA (GI) Limited (general insurance company)	UK	Ordinary shares of £0.01 and Deferred shares of £0.25
Phoenix Life Limited	UK	Ordinary shares of £1
Phoenix & London Assurance Limited	UK	Ordinary shares of £1
Phoenix Pensions Limited	UK	Ordinary shares of £1
Scottish Mutual International Limited	ROI	Ordinary shares of €1.25
Non-insurance companies		
Axial Fixed Income Opportunities S.a.r.l. (investment vehicle)	Luxemburg	Ordinary shares of €100
Ignis Investment Management Limited (investment management company)	UK	Ordinary shares of £1
Ignis Asset Management Limited (investment management company)	UK	Ordinary shares of £1
Ignis Fund Managers Limited (unit trust management company)	UK	Ordinary shares of £1
Ignis Investment Services Limited (investment management company)	UK	Ordinary shares of £1
Impala Holdings Limited (holding company)	UK	'A' ordinary shares of £1, 'B' ordinary shares of £1 and 'D' ordinary shares of £1
Mutual Securitisation plc (finance company)	ROI	Quasi subsidiary
NP Life Holdings Limited (holding company)	UK	'A' ordinary shares of £1 and 'B' ordinary shares of £1
PGH (LC1) Limited (finance company)	UK	Ordinary shares of £1
PGH (LC2) Limited (finance company)	UK	Ordinary shares of £1
PGH (MC1) Limited (finance company)	UK	Ordinary shares of £1
PGH (MC2) Limited (finance company)	UK	Ordinary shares of £1
Pearl Group Holdings (No. 1) Limited (finance company)	UK	Ordinary shares of £1
Pearl Group Holdings (No. 2) Limited (holding company)	UK	Ordinary shares of £1
Pearl Life Holdings Limited (holding company)	UK	Ordinary shares of £1
Pearl Group Services Limited (service company)	UK	Ordinary shares of £1
PGS 2 Limited (finance company)	UK	Ordinary shares of £1
Pearl Group Management Services Limited (service company)	UK	Ordinary shares of £1
Phoenix Life Holdings Limited (holding company)	UK	Ordinary shares of £1
UK Commercial Property Trust Limited (property fund)	Guernsey	72% of ordinary shares of £0.25

The information disclosed above is only in respect of those undertakings which principally affect the figures shown in the OPB's accounts. There are a number of other subsidiaries and associated undertakings whose business does not materially affect the OPB's profits or the amount of its assets and particulars of these have been omitted in view of their excessive length.

44. Acquisition

On 1 May 2008, Impala, a subsidiary undertaking acquired 100% of the issued share capital of Resolution plc (subsequently renamed Pearl Group Holdings No. 1 Limited ("PGH1")) for a net consideration of £3,867 million. Goodwill of £146 million arose on this transaction. The results of PGH1 and its subsidiary undertakings have been included in the combined accounts of the OPB from the date of acquisition. Acquisition accounting was adopted for this transaction.

Under the terms of the acquisition, PGH1 shareholders received 720 pence in cash for each share held. As an alternative to receiving some or all of their consideration in cash, shareholders were entitled to receive loan notes issued by Impala which accrue interest at 1% below six month sterling LIBOR. This gave a total fair value of consideration, including acquisition expenses, paid by Impala for the acquisition of PGH1 of £4,966 million.

At 31 December 2007, the OPB held a 25.93% equity investment in PGH1 via a 20.13% holding carried by Pearl and a 5.80% stake carried by PGH2. Impala acquired these shares from Pearl and PGH2 at £7.20 per share. However, the statement of combined financial position follows the rules of piecemeal acquisition accounting and reports a total fair value of consideration which comprises the price paid externally by the OPB. This results in the £7.20 pence per share consideration of £4,966 million being reduced by £103 million.

As an integral part of the acquisition, PGH2 and Impala entered into an agreement with Royal London under which, coincident with the acquisition of PGH1, Royal London acquired certain of PGH1's businesses and assets. The total initial consideration paid by Royal London on 1 May 2008, in connection with this transaction, was £1,267.3 million. This consideration was subsequently adjusted to £996 million.

The table below summarises the assets and liabilities acquired and the fair value adjustments made at the date of acquisition:

	Notes	Book value	Other adjustments	Fair value
		£m	£m	£m
Liabilities				
Insurance contract liabilities		39,174	—	39,174
Financial liabilities	2	9,181	(61)	9,120
Provisions		60	—	60
Deferred tax	1	606	267	873
Reinsurance payables		146	—	146
Payables related to direct insurance contracts		613	—	613
Other liabilities	4	1,462	(52)	1,410
Total liabilities		51,242	154	51,396
Assets				
Pension scheme		56	—	56
Intangible assets	5	1,502	787	2,289
Property, plant and equipment		32	—	32
Investment property		2,157	—	2,157
Financial assets		40,075	—	40,075
Insurance assets		3,214	—	3,214
Other assets	3	1,821	(47)	1,774
Cash and cash equivalents		6,206	—	6,206
Total assets		55,063	740	55,803
Net assets		3,821	586	4,407
Less: Non-controlling interests				
Perpetual Reset Capital Securities				(500)
UK Commercial Property Trust Limited				(186)
Fair value of net assets acquired				3,721
Fair value of consideration				
Cash consideration at £7.20 per share				4,880
Acquisition expenses paid in 2008				7
				4,887
Acquisition expenses paid in 2007				7
Total cash outflow				4,894
Loan notes issued				72
Total consideration at £7.20 per share				4,966
Less:				
Adjustment to consideration for piecemeal purchases				(103)
Total consideration under piecemeal acquisition accounting				4,863
Amount attributed to Royal London				(996)
Net consideration				3,867
Acquired goodwill				146

Notes

1. The £267 million fair value adjustment represents recognition of additional deferred tax liabilities (£22 million), removal of deferred tax liabilities associated with the present value of acquired in-force business in PGH1 prior to acquisition (£(528) million) and the recognition of deferred tax liabilities associated with the recognition of the present value of acquired in-force business and the recognition of other intangible assets (£773 million).
2. The £61 million fair value adjustment revalues the Scottish Mutual Assurance Limited unsecured subordinated loan to its market value of £149 million.
3. The £(47) million fair value adjustment represents the elimination of deferred acquisition costs (£17 million) and deferred origination costs (£30 million) in PGH1.
4. The £(52) million fair value adjustment represents the elimination of deferred income in PGH1.
5. The £787 million of fair value adjustments to intangible assets represent the removal and creation of the following intangible assets:
   - £1,993 million recognition of the present value of acquired in-force business;
   - £288 million recognition of the value attributed to vesting premiums within the life companies and investment management contracts of the asset management company;
   - £(1,285) million elimination of the present value of acquired in-force business in PGH1 prior to acquisition; and
   - £(209) million elimination of purchased goodwill reported in PGH1 prior to acquisition.

If the acquisition of PGH1 had been completed on the first day of the 2008 financial year, OPB's total revenue net of reinsurance for the year would have increased by £322 million from £1,254 million to £1,576 million and the loss for the year before tax would have increased by £59 million from £1,372 million to £1,431 million.

Shown in the table below are figures for the revenues and result before tax of PGH1 for the period from 1 January 2008 to the effective date of the acquisition (1 May 2008).

	£m
Gross premiums written	349
Less: premiums ceded to reinsurers	(27)
Net premiums written	322
Fees	50
Net investment income	(712)
Total revenue, net of reinsurance payable	(340)
Other operating income	(85)
Net income	(425)
Net policyholder claims and benefits incurred	210
Total operating expenses	193
Loss before finance costs and tax	(22)
Finance costs	(37)
Loss for the period before tax	(59)

45. Events after the reporting period

On 5 January 2010 PGH1 announced a proposed restructuring of the Notes. The proposed restructuring was not approved by Noteholders and consequently those proposals were not implemented.

On 23 March 2010 PGH1 gave notice to the holders of the Notes of its decision to defer the coupon payment on the Notes which would otherwise have been due at the next payment date of 25 April 2010. PGH1 announced that this notice would be withdrawn and the 2010 coupon would be paid in full on 25 April 2010 if certain amending proposals were approved by, amongst others, the Noteholders. These proposals include a reduction of 15% in the face value of the Notes and the payment in full of the deferred 2009 coupon by 31 December 2010. Both proposed coupon payments are to be based on the current nominal value of the Notes, being £500 million. The amending proposals were agreed by the Noteholders on 22 April 2010 and the 2010 coupon paid on 26 April 2010.

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The Directors
Phoenix Group Holdings
c/o Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman
KY-1104, Cayman Islands

4 June 2010

Dear Sirs

Pearl Group Holdings (No.1) Limited

We report on the financial information in respect of Pearl Group Holdings (No.1) Limited (formerly Resolution plc) set out in the Annex to the Prospectus. This financial information has been prepared for inclusion in the prospectus dated 4 June 2010 of Phoenix Group Holdings (the "Prospectus") on the basis of the accounting policies set out in paragraph 1. This report is required by item 20.1 of Annex 1 of the Commission Regulation (EC) 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under applicable law to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex 1 to the Commission Regulation (EC) 809/2004, consenting to its inclusion in the Prospectus.

Responsibilities

The Directors of Phoenix Group Holdings are responsible for preparing the financial information on the basis of preparation set out in note 1(a) to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Prospectus, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of Pearl Group Holdings (No.1) Limited as at the dates stated and of its profits and losses, cash flows, recognised gains and losses and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Declaration

For the purposes of Commission Regulation (EC) 809/2004, we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex 1 of the Commission Regulation (EC) 809/2004.

Yours faithfully

Ernst & Young LLP

Consolidated income statement
for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Gross premiums written		1,677	2,104
Less: premiums ceded to reinsurers		(186)	(330)
Net premiums written		1,491	1,774
Fees and commissions	6	171	150
Net investment income	7	(2,174)	2,365
Total revenue, net of reinsurance payable		(512)	4,289
Other operating income	8	71	9
Net income		(441)	4,298
Policyholder claims		(5,661)	(5,692)
Less: reinsurance recoveries		305	326
Change in insurance contract liabilities		5,151	2,715
Change in reinsurers' share of insurance contract liabilities		(232)	(14)
Transfer from unallocated surplus	20	330	2
Net policyholder claims and benefits incurred		(107)	(2,663)
Change in investment contract liabilities		1,373	(384)
Acquisition costs	9	(82)	(112)
Amortisation of acquired in-force business	32	(168)	(228)
Administrative expenses		(648)	(594)
Net expense/(income) attributable to unit holders		147	(99)
Other operating expenses	11	(29)	(89)
Total operating expenses		486	(4,169)
Profit before finance costs		45	129
Finance costs	12	(127)	(125)
(Loss)/profit for the year before other items		(82)	4
Gain on disposal of business to Royal London	4	280	—
Loss on disposal of subsidiaries	4	(372)	—
(Loss)/profit for the year before tax		(174)	4
Tax (charge)/credit	13	(6)	132
(Loss)/profit for the year attributable to owners		(180)	136
Attributable to:			
Owners of the parent			
Ordinary shareholders		(180)	116
Perpetual Reset Capital Securities		33	33
		(147)	149
Non-controlling interests		(33)	(13)
		(180)	136

The results for the year to 31 December 2008, have been classified as discontinued operations as all subsidiary operations were sold during the year. The continuing results of the parent entity are not material in the context of the total results.

Pearl Group Holdings (No. 1) Limited (formerly Resolution plc)

Statement of consolidated comprehensive income
for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
(Loss)/profit for the year		(180)	136
Other comprehensive income:			
Actuarial gains of defined benefit pension scheme	29	104	—
Contribution in respect of actuarial losses of defined benefit pension scheme by the with profit funds	29	—	44
Exchange differences on translating foreign operations		12	9
Transfer of cumulative exchange differences on disposal of subsidiaries		(19)	—
		97	53
Tax credit/(charge)	13	1	(2)
		98	51
Total comprehensive income for the year		(82)	187
Attributable to:			
Owners of the parent			
Ordinary shareholders		(82)	167
Perpetual Reset Capital Securities		33	33
		(49)	200
Non-controlling interests		(33)	(13)
		(82)	187

The results for the year to 31 December 2008, have been classified as discontinued operations as all subsidiary operations were sold during the year. The continuing results of the parent entity are not material in the context of the total results.

Pearl Group Holdings (No. 1) Limited (formerly Resolution plc)

Statement of consolidated financial position as at 31 December 2008

	Notes	2008 £m	2007 £m
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	15	34	34
Share premium		1,541	1,537
Perpetual reset capital securities	17	497	497
Share option reserve		—	6
Foreign currency translation reserve		—	7
Merger reserve		—	1,043
Retained earnings		1,274	1,283
Total equity attributable to owners of the parent		3,346	4,407
Non-controlling interests	18	—	192
Total equity		3,346	4,599
Liabilities			
Insurance contract liabilities			
Liabilities under insurance contracts	19	—	43,144
Unallocated surplus	20	—	703
		—	43,847
Financial liabilities			
Investment contracts	22	—	8,637
Borrowings	25	—	456
Deposits received from reinsurers	26	—	467
Derivatives	38	72	303
Net asset value attributable to unit holders		—	577
		72	10,440
Provisions	21	—	69
Deferred tax	39	6	857
Reinsurance payables		—	67
Payables related to direct insurance contracts		—	431
Deferred income			
Investment contracts		—	53
Other		—	15
	27	—	68
Current tax	39	7	130
Accruals		—	145
Trade and other payables	28	4	501
Total liabilities		89	56,555
Total equity and liabilities		3,435	61,154

Pearl Group Holdings (No.1) Limited (formerly Resolution plc)

Statement of consolidated financial position
as at 31 December 2008

	Notes	2008 £m	2007 £m
ASSETS			
Pension scheme surplus	29	50	20
Investment in group undertakings			
Loans to parent and group undertakings	30	3,186	—
Intangible assets			
Goodwill		—	209
Acquired in-force business		—	1,817
Deferred acquisition costs		—	79
Other		—	110
	32	—	2,215
Property, plant and equipment	31	—	39
Investment property	34	—	2,410
Financial assets			
Loans and deposits	37	—	804
Derivatives	38	71	297
Equities		—	10,275
Fixed and variable rate income securities		—	25,975
Collective investment schemes		—	9,607
	35	71	46,958
Deferred tax	39	—	—
Insurance assets			
Reinsurers' share of insurance contract liabilities	19	—	3,212
Reinsurance receivables		—	124
Insurance contract receivables		—	34
		—	3,370
Current tax	39	—	157
Prepayments		—	524
Amounts owed by group undertakings		125	—
Trade and other receivables		3	444
Cash and cash equivalents	40	—	5,005
Asset held for sale	41	—	12
Total assets		3,435	61,154

Pearl Group Holdings (No.1) Limited (formerly Resolution plc)

Statement of consolidated cash flows
for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Cash flows from operating activities			
Cash generated from operations	42	2,045	2,383
Taxation paid		(63)	(137)
Net cash flows from operating activities		1,982	2,246
Cash flows from investing activities			
Sale/purchase of businesses/subsidiaries (net of cash disposed/acquired)	4/43	(5,875)	(30)
Purchase of property, plant and equipment		1	(4)
Proceeds from sale of property, plant and equipment		—	5
Repayment of loan by fellow group undertaking		401	—
Interest received from fellow group undertakings		8	—
Net cash flows from investing activities		(5,465)	(29)
Cash flows from financing activities			
Proceeds from issue of share capital		4	3
Proceeds of issuing shares to non-controlling shareholders in UK Commercial Property Trust Limited		—	73
Ordinary share dividends paid		(1,150)	(154)
Coupon on Perpetual Reset Capital Securities paid		(33)	(33)
Dividends paid to non-controlling interests		(10)	(10)
Purchase of own shares to settle share options		(10)	(5)
Repurchase of shares from non-controlling shareholders		—	(10)
Repayment of deposits from reinsurers		—	(39)
Repayment of borrowings		(235)	(820)
Interest paid on borrowings		(88)	(111)
Net cash flows from financing activities		(1,522)	(1,106)
Net (decrease)/increase in cash and cash equivalents		(5,005)	1,111
Cash and cash equivalents at the beginning of the year		5,005	3,894
Cash and cash equivalents at the end of the year	40	—	5,005

Pearl Group Holdings (No.1) Limited (formerly Resolution plc)

Statement of consolidated changes in equity
for the year ended 31 December 2008

	Share capital (note 15)	Share premium	Perpetual reset capital securities (note 17)	Share options reserve	Foreign currency translation reserve	Merger reserve	Retained earnings	Total	Non-controlling interests (note 18)
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1									
34	1,537	497	6	7	1,043	1,283	4,407	192	4,599
	Total								
—	—	—	—	(7)	—	(42)	(49)	(33)	(82)

	Total
	£m
At 1 January 2008	4,599
Total comprehensive income for the year attributable to owners	(82)
Dividends on ordinary shares	(1,150)
Coupon paid on perpetual reset capital securities, net of tax relief	(23)
Dividends paid to non-controlling interests	(10)
	(1,183)
Issue of ordinary share capital – share option schemes	4
Purchase of own shares to settle share options	(10)
	3,328
Disposal of subsidiaries	18
At 31 December 2008	3,346

Pearl Group Holdings (No.1) Limited (formerly Resolution plc)

Statement of consolidated changes in equity for the year ended 31 December 2007

	Share capital (note 15)	Share premium	Perpetual reset capital securities (note 17)	Share options reserve	Foreign currency translation reserve	Merger reserve	Retained earnings	Total	Non-controlling interests (note 18)	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2007	34	1,534	497	5	—	1,043	1,268	4,381	154	4,535
Total comprehensive income for the year attributable to owners	—	—	—	(1)	7	—	194	200	(13)	187
Dividends on ordinary shares	—	—	—	—	—	—	(154)	(154)	—	(154)
Coupon paid on perpetual reset capital securities, net of tax relief	—	—	—	—	—	—	(23)	(23)	—	(23)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(10)	(10)
	—	—	—	—	—	—	(177)	(177)	(10)	(187)
Issue of ordinary share capital – share option schemes	—	3	—	(3)	—	—	3	3	—	3
Issue of ordinary shares to non-controlling shareholders in UK Commercial Property Trust Limited	—	—	—	—	—	—	—	—	73	73
Equity share options issued	—	—	—	5	—	—	—	5	—	5
Purchase of own shares to settle share options	—	—	—	—	—	—	(5)	(5)	—	(5)
Repurchase of shares from non-controlling shareholders in UK Commercial Property Trust Limited	—	—	—	—	—	—	—	—	(10)	(10)
Adjustment to interest in net assets of UK Commercial Property Trust Limited	—	—	—	—	—	—	—	—	(2)	(2)
At 31 December 2007	34	1,537	497	6	7	1,043	1,283	4,407	192	4,599

1. Accounting policies

(a) Basis of preparation

The consolidated financial statements of Pearl Group Holdings (No. 1) Limited (formerly Resolution plc) (''the Company'') and its subsidiaries (together referred to as ''the Group'') for the year ended 31 December 2008 include the consolidated results of all subsidiaries up to the date of disposal. A list of all material subsidiaries included in this consolidation are set out in note 49.

On 31 December 2008, the Company disposed of all its subsidiary undertakings and the nature of the Company's operations changed from that of a holding company to that of a financing company.

The financial statements do not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006 and have been prepared specifically for the purposes of the Phoenix Group Holdings prospectus.

The consolidated financial statements have been prepared on a historical cost basis except for investment property, owner-occupied property, and those financial instruments and financial liabilities that have been measured at fair value.

The consolidated financial statements are presented in sterling (£) rounded to the nearest £ million except where otherwise stated.

The Group presents its statement of consolidated financial position broadly in order of liquidity. An analysis regarding recovery or settlement more than twelve months after the period end is presented in the notes.

Financial assets and financial liabilities are offset and the net amount reported in the statement of consolidated financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (''IFRS'') as adopted by the European Union (''EU'').

Basis of consolidation

For the purposes of preparing the consolidated financial statements, subsidiaries are those entities in which the Group directly or indirectly have an interest of more than one half of the voting rights or otherwise have power to govern the financial and operating policies of another entity. Where this is the case, the assets and liabilities of these entities are consolidated in full.

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings including collective investment schemes where the Group exercises overall control. Certain of the collective investment schemes have non-coterminous period end dates and are consolidated on the basis of additional financial statements prepared to the period end date. The non-controlling interest in the collective investment schemes is classified as a liability and shown in the statement of consolidated financial position as net asset value attributable to unit holders. Intragroup balances and income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

The Group has used the purchase method to account for the acquisition of subsidiary undertakings. The cost of an acquisition has been measured at the fair value of the consideration. Any excess of the cost of acquisition over the fair value of the net assets acquired has been treated as goodwill. Directly attributable acquisition costs are included within the cost of the acquisition, with the exception of costs directly related to the issuing of debt or equity securities which are included within the initial carrying amount of debt or equity securities where these are not held at fair value.

Non-controlling interests are stated at the initial amount attributed adjusted for the relevant share of subsequent changes in equity.

(b) Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Group's business that typically require such estimates are insurance and investment contract liabilities, determination of the fair value for financial assets and liabilities, impairment tests for intangible assets, income taxes and pension benefit assets and liabilities.

Insurance and investment contract liabilities

Insurance and investment contract liability accounting is discussed in more detail in accounting policies (e) and (f) with further detail of the key assumptions made in determining insurance and investment contract provisions included in note 48.

Fair value for financial assets and liabilities

The fair values of financial assets and liabilities are classified and accounted for as set out in accounting policy (q) and (g) respectively. Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities, without any deduction for transaction costs.

The fair value of fixed interest bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the period end.

Impairment of intangible assets

Intangible assets are subject to regular impairment reviews as detailed in accounting policy (m). Impairments are measured at the difference between the carrying value of a particular asset and its recoverable amount. Impairments are recognised in the consolidated income statement in the period in which they occur.

Income taxes

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets. Any judgements made, and uncertainties considered, in arriving at deferred tax balances in the financial statements are discussed in note 39.

The accounting policy for income taxes (both current and deferred taxes) is discussed in more detail in accounting policy (k).

Pensions benefit assets and liabilities

The valuation of pension benefit assets and liabilities is determined using actuarial valuations, which involves making assumptions about discount rates, expected return rates on assets, future salary increases, mortality rates and future pension increases. As defined benefit pension plans are long-term in nature, such assumptions are subject to significant uncertainty. Details of the key assumptions used are shown in note 29.

(c) Foreign currency transactions

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in sterling, which is the Group's presentation currency.

The results and financial position of all Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the period end date;
- income and expenses are translated at average exchange rates;
- all resulting exchange differences are recognised as a separate component of equity; and
- cash flows are translated at average exchange rates.

Foreign currency transactions are translated into the functional currency of the transacting Group entity using average exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value through profit or loss are included in foreign exchange gains and losses. Translation differences on non-monetary items at fair value through profit or loss are reported as part of the fair value gain or loss.

(d) Classification of contracts

Contracts under which the Group accepts significant insurance risk are classified as insurance contracts.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts.

Some insurance and investment contracts contain a discretionary participation feature ("DPF"). This feature entitles the policyholder to additional discretionary benefits as a supplement to guaranteed benefits. Investment contracts with a DPF are recognised, measured and presented as insurance contracts.

(e) Insurance contracts and investment contracts with DPF

Under current IFRS requirements, insurance contracts and investment contracts with DPF are measured using accounting policies consistent with those adopted under previous GAAP.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

Insurance liabilities

The insurance contract liability for non participating non linked business is calculated initially to comply with the requirements of the Prudential Sourcebook for Insurers issued by the Financial Services Authority ("FSA"), the UK Regulator. The liability for insurance contracts for business in the non profit fund is adjusted where necessary by removing excessively prudent margins required for statutory solvency purposes together with general contingency reserves and those reserves required only under the Prudential Sourcebook for Insurers.

Insurance contract liabilities for non participating business are calculated using either a net premium or gross premium method. Where a gross premium method is used, the liability includes allowance for prudent lapses. Negative policy values are allowed for individual policies:

- where there are no guaranteed surrender values; or
- in the periods where guaranteed surrender values do not apply even though guaranteed surrender values are applicable after a specified period of time.

The principal assumptions are given in note 48.

For participating business, the Group follows the provisions of the UK Accounting Standard Board's FRS 27 Life Assurance. In accordance with these requirements, the liabilities under insurance contracts and investment contracts with DPF are calculated on the FSA's realistic basis. The key aspects of this methodology are:

- liabilities to policyholders arising from with profit life assurance business are stated at the amount of the realistic value of the liabilities, adjusted to exclude the owners' share of projected future bonuses;
- acquisition costs are not deferred; and

- reinsurance recoveries are measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

The principal assumptions are given in note 48.

Embedded derivatives

Embedded derivatives, including options to surrender insurance contracts, that meet the definition of insurance contracts or are closely related to the host insurance contract, are not separately measured. All other embedded derivatives are separated from the host contract and measured at fair value through profit or loss.

Liability adequacy

At each reporting date, liability adequacy tests are performed to assess whether the insurance contract and investment contract with DPF liabilities are adequate. Current best estimates of future cash flows are compared to the carrying value of the liabilities. Any deficiency is charged to the consolidated income statement.

The Group's accounting policies for insurance contracts meet the minimum specified requirements for liability adequacy testing under IFRS 4, as they allow for current estimates of all contractual cash flows and of related cash flows such as claims handling costs. Cash flows resulting from embedded options and guarantees are also allowed for, with any deficiency being recognised in the consolidated income statement.

Unallocated surplus

The unallocated surplus comprises the excess of the assets over the policyholder liabilities of the with profit business of the Group's life operations. For the Group's with profit funds, the amount included in the statement of consolidated financial position caption 'Unallocated surplus' only represents amounts which have yet to be allocated to owners since, the unallocated surplus attributable to policyholders has been included within liabilities under insurance contracts. The with profit funds are closed to new business and as permitted by IFRS 4, the whole of the unallocated surplus has been classified as a liability (either within insurance contract liabilities or unallocated surplus).

If the realistic value of liabilities to policyholders exceeds the value of the assets in the with profit fund, the unallocated surplus is valued at £nil.

(f) Investment contracts without DPF

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

The valuation of liabilities on unit linked contracts is based on the fair value of the related assets and liabilities. The financial liability is measured based on the carrying value of the assets and liabilities that are held to back the contract. The liability is the sum of the unit linked liabilities plus an additional amount to cover the present value of the excess of future policy costs over future charges.

Investment income and the movements in the fair value of investment contracts without DPF are included in the 'change in investment contract liabilities' in the consolidated income statement.

(g) Financial liabilities

On initial recognition, financial liabilities are recognised when due and measured at the fair value of the consideration received less directly attributable transaction costs (with the exception of other liabilities at fair value through profit or loss for which all transaction costs are expensed).

Subsequent to initial recognition, financial liabilities (except for liabilities under insurance contracts and other liabilities at fair value through profit or loss) are measured at amortised cost using the effective interest rate method.

Financial liabilities are designated upon initial recognition at fair value through profit or loss when doing so results in more meaningful information because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.

(h) Borrowings

Interest bearing borrowings are recognised initially at fair value less any attributable transaction costs. The difference between initial cost and the redemption value is amortised through the consolidated income statement over the period of the borrowing using the effective interest method.

(i) Deposits from reinsurers

It is the Group's practice to obtain collateral to cover certain reinsurance transactions, usually in the form of cash or marketable securities. Where cash collateral is available to the Group for investment purposes, the investments are recognised as 'financial assets' and the collateral repayable is recognised as 'deposits received from reinsurers'.

(j) Net asset value attributable to unit holders

The net asset value attributable to unit holders represents the non-controlling interest in collective investment schemes where the Group has a holding in excess of 50%. This interest is classified at fair value through profit or loss and measured at fair value, which is equal to the bid value of the number of units of the collective investment scheme not owned by the Group.

(k) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised in the statement of consolidated comprehensive income or the statement of consolidated changes in equity, in which case it is recognised in these statements.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantially enacted at the date of the statement of consolidated financial position together with adjustments to tax payable in respect of previous years.

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided in respect of temporary differences arising from the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the period end.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the consolidated income statement as incurred.

Defined benefit schemes

The net surplus or deficit (the economic surplus or deficit) in respect of the defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted. The discount rate is the yield at the period end date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The economic surplus or deficit is subsequently adjusted to eliminate on consolidation the carrying value of insurance policies issued by Group entities to the defined benefit pension scheme (the reported surplus or deficit). A corresponding adjustment is made to the carrying values of insurance contracts liabilities and investment contracts liabilities.

The movement in the reported surplus/deficit is analysed between the service cost (recognised within administrative expenses in the consolidated income statement), the net interest gain or loss on the liabilities less the expected return on assets, including any reimbursement assets (recognised with net investment income in the consolidated income statement), curtailment gains/losses and actuarial gains and losses (recognised in other comprehensive income). All actuarial gains and losses are recognised in full.

(m) Intangible assets

Goodwill

Business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is measured on initial recognition at cost. Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. It is tested for impairment annually or when there is evidence of possible impairment. Goodwill is not amortised. For impairment testing, goodwill is allocated to cash generating units (life and asset management). Goodwill is impaired when the recoverable amount is insufficient to support its carrying value.

Acquired in-force business

Insurance and investment contracts with and without DPF acquired in business combinations and portfolio transfers are measured at fair value at the time of acquisition. The difference between the fair value of the contractual rights acquired and obligations assumed and the liability measured in accordance with the Group's accounting policies for such contracts is recorded as acquired in-force business.

Acquired in-force business is amortised over the estimated life of the contracts on a basis which recognises the emergence of the economic benefits.

An impairment review is performed whenever there is an indication of impairment. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the consolidated income statement. Acquired in-force business is also considered in the liability adequacy test for each reporting period.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the fair value of the intangible asset is less than its carrying value.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised.

(n) Property, plant and equipment

Owner-occupied property is stated at fair value, being the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. Owner-occupied property is depreciated over its estimated useful life, which is taken as fifty years, except where the residual value is greater than its carrying value in which case, no depreciation is charged to profit or loss. Land is not depreciated. Gains and losses on owner-occupied property are recognised in the statement of consolidated comprehensive income.

Plant and equipment is stated at cost less accumulated depreciation. Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives.

(o) Investment property

Investment property is stated at fair value. Fair value is based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. Gains and losses arising from the change in fair value are recognised in the consolidated income statement.

(p) Investments in associates and joint ventures

Investments in associates and joint ventures that are held for investment purposes are accounted for under IAS 39 Financial Instruments: Recognition and Measurement as permitted by IAS 28 Interests in Associates and IAS 31 Interests in Joint Ventures. These are measured at fair value through profit or loss. There are no investments in associates and joint ventures which are of a strategic nature.

(q) Financial assets

Purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest rate method.

Derivative financial instruments are classified as held for trading. They are recognised initially at fair value and subsequently are re-measured to fair value. Exchange-traded derivatives are valued at the published bid price, or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. The gain or loss on re-measurement to fair value is recognised in the consolidated income statement.

Equities, fixed and variable rate income securities and collective investment schemes are designated as at fair value through profit or loss and accordingly are stated in the statement of consolidated financial position at fair value. They are designated at fair value through profit or loss because they are managed and evaluated on a fair value basis in accordance with the Group's stated risk management policies to maximise returns to owners.

Invested cash held in collective investment schemes that are consolidated is recognised as a financial asset rather than cash and cash equivalents.

Impairment of financial assets

The Group assesses at each period end whether a financial asset or group of financial assets held at amortised cost is impaired. The Group first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

Fair value estimation

The fair value of financial instruments traded in active markets such as publicly traded securities and derivatives are based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. The fair value of investments that are not traded in an active market is determined using valuation techniques such as broker quotes, pricing models or discounted cash flow techniques. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument.

For units in unit trusts and shares in open-ended investment companies, fair value is by reference to published bid-values. The fair value of receivables and floating rate and overnight deposits with credit institutions is their carrying value. The fair value of fixed-interest bearing deposits is estimated using discounted cash flow techniques.

Stock lending

Financial assets that are lent under the Group's stock lending programme do not qualify for derecognition from the statement of consolidated financial position as the Group retains substantially all of the risks and rewards of the transferred assets.

Collateral

The Group receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, derivative contracts and reinsurance arrangements in order to reduce the credit risk of these transactions. The amount and type of collateral required where the Group receives collateral depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, where the Group has contractual rights to receive the cash flows generated, is recognised as an asset on the statement of consolidated financial position with a corresponding liability for its repayment. Non-cash collateral received is not recognised in the statement of consolidated financial position, unless the counterparty defaults on its obligations under the relevant agreement.

Cash and non-cash collateral pledged where the Group retains the contractual rights to receive the cash flows generated is not derecognised from the statement of consolidated financial position, unless the Group defaults on its obligations under the relevant agreement, and therefore continues to be recognised in the statement of consolidated financial position within the appropriate asset classification.

(r) Reinsurance

The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Reinsurers' share of insurance contract liabilities are dependent on expected claims and benefits arising under the related reinsured policies.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the consolidated income statement.

Reinsurance premiums payable in respect of certain reinsured individual and group pensions annuity contracts are payable by quarterly instalments. Due to the period of time over which reinsurance premiums are payable under these arrangements, the reinsurance premiums and related creditor are discounted to present values using a pre-tax risk-free rate of return. The unwinding of the discount is included as a charge within the consolidated income statement.

Gains or losses on purchasing reinsurance are recognised in the consolidated income statement at the date of purchase and are not amortised. They are the difference between the premiums ceded to reinsurers and the related change in the reinsurers' share of insurance contract liabilities.

(s) Deferred acquisition costs

Acquisition costs, comprising all direct and indirect costs arising from the conclusion of insurance and investment contracts are deferred as an explicit acquisition cost asset. This asset is amortised over the period in which the costs are expected to be recoverable out of margins from matching revenues from related policies and in accordance with the pattern of such margins. Deferred acquisition cost amortisation is presented within other acquisition costs in the consolidated income statement. At the end of each accounting period, deferred acquisition costs are reviewed for recoverability, by category, against future margins from the related policies in force at the period end date.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of consolidated cash flows.

(u) Provisions and contingent liabilities

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Group has a present legal or constructive obligation but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be reliably estimated, this is disclosed as a contingent liability.

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the expected economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

(v) Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's owners. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting period end date are dealt with as an event after the reporting period end.

Declared dividends are those that are appropriately authorised and are no longer at the discretion of the entity.

(w) Income recognition

Gross premiums

In respect of insurance contracts and investment contracts with DPF, premiums are accounted for on a receivable basis and exclude any taxes or duties based on premiums. Funds at retirement under individual pension contracts converted to annuities with the Group are for accounting purposes, included in both claims incurred and premiums within gross premiums written.

Reinsurance premiums

Outward reinsurance premiums are accounted for on a payable basis.

Fee and commission income

Fee and commission income relates to the following:

- fund management based fees, which are recognised as the services are provided;
- investment contract income – investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those periods. 'Front end' fees are charged on some non participating

investment contracts. Where the non participating investment contract is measured at fair value, such fees which relate to the provision of investment management services are deferred and recognised as the services are provided; and

- other fees, which are recognised as the services are provided.

Net investment income

Net investment income comprises interest, dividends, rents receivable, net expected return on pension assets, fair value gains and losses on financial assets, investment property and impairment losses on loans and deposits.

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

Rental income from investment property is recognised in the consolidated income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

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

Other operating income

Other operating income comprises general business income and other non investment income and is recognised on an accruals basis.

(x) Benefits, claims and expenses recognition

Gross benefits and claims

Claims on insurance contracts and investment contracts with DPF reflect the cost of all claims arising during the period, including policyholder bonuses allocated in anticipation of a bonus declaration. Claims payable on maturity are recognised when the claim becomes due for payment and on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the insurance contract liabilities. Where claims are payable and the contract remains in force, the claim instalment is accounted for when due for payment. Claims payable include the costs of settlement.

Reinsurance claims

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

Finance cost

Interest paid is recognised in the consolidated income statement as it accrues and is calculated by using the effective interest method. Accrued interest is included within carrying value of the interest bearing financial liability.

(y) Share capital

The Group has issued ordinary shares that are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

The Group has also issued Perpetual Reset Capital Securities that meet the definition of equity for accounting purposes. Accordingly, they are shown as the proceeds of issue and coupons on the securities are recognised on the date of payment and charged directly to the statement of consolidated comprehensive income, net of tax.

(z) General business

The general insurance businesses have been closed to new business for a number of years and are in run off. The results are included within the consolidated income statement. Provisions are made for the estimated cost of claims, including claims incurred but not reported after taking into account handling costs, anticipated inflation and settlement trends. Any difference between the estimated provision and subsequent settlement is included in the consolidated income statement in later years.

(aa) Segmental reporting

The Group's results are analysed across two reportable segments: life assurance and asset management. The revenues generated in each reported segment are shown in the segmental information in note 5.

There are no differences between the measurement of the assets and liabilities reflected in the primary statements and that reported for the segments. A reconciliation between the reported segment revenues and expenses and the Group's revenues and expenses is shown in note 5.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so.

(bb) Events after the reporting period

The financial statements are adjusted to reflect significant events that have a material effect on the financial results and that have occurred between the period end date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the period end. Events that are indicative of conditions that arise after the period end that do not result in an adjustment to the financial statements are disclosed.

2. Financial information

The financial statements have been prepared in accordance with IFRS adopted for use by the EU.

In preparing the consolidated financial statements the Group has adopted IAS 1 *Presentation of Financial Statements (as revised in 2007)*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures* – Reclassification of Financial Assets (Amendments), issued in October 2008 and IFRS 8 *Operating Segments*, issued in November 2006.

The International Accounting Standards Board has issued the following standards, amendments and interpretations which apply from the dates shown. The Group has decided not to adopt any of these standards, amendments or interpretations where early adoption is permitted. The impact of adopting them is not expected to have a material effect on the results of the Group:

- IFRS 3 *Business Combinations (Revised)* (2010). This converges International and US reporting requirements relating to business combination;
- IFRS 9 *Financial Instruments* (2013). IFRS 9 is the first phase of the project to replace IAS 39 *Financial Instruments: Recognition and Measurement* and deals with the classification and measurement of financial assets, including some hybrid contracts;
- IAS 24 *Related Party Disclosures* (2011). This amends the definition of a related party and clarifies its intended meaning;
- IAS 27 *Consolidated and Separate Financial Statements (Revised)* (2010). This revises the accounting for non-controlling interests (currently minority interests) and the loss of control of subsidiaries;
- *Annual improvements* (2009 and 2010). These make a number of minor improvements to existing standards;
- Embedded Derivatives (Amendments to IFRIC 9 and IAS 39) (2010). This clarifies the treatment of embedded derivatives;
- Improving disclosures about Financial Instruments (Amendments to IFRS 7). This requires enhanced disclosures about fair value measurements and liquidity risk;

- IAS 23 *Borrowing Costs (Revised)* (2009). This removes the existing option to recognise as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset;
- IAS 27 *Consolidated and Separate Financial Statements* (2009). This revises the accounting treatment of dividends paid out of the pre-acquisition reserves of subsidiaries;
- IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* (2009). Amendments relating to the recognition of puttable financial instruments and obligations arising on liquidation; and
- IFRIC 17 *Distributions of Non-Cash Assets to Owners* (2010). IFRIC 17 provides guidance on how an entity should account for distributions of non-cash assets to its owners, other than in limited circumstances.

In addition, the following standards, amendments and interpretations have been issued but are not relevant to the Group:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendment)* (2009);
- IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations (Amendment)* (2009);
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible hedged items (Amendment)* (2010);
- IFRIC 13 *Customer Loyalty Programmes* (2009);
- IFRIC 15 *Agreements for the Construction of Real Estate* (2009);
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (2009);
- IFRIC 18 *Transfers of Assets from Customers* (July 2009);
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (2011);
- Additional Exemptions for First-time Adopters (Amendments to IFRS 1) (2010);
- Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2) (2010);
- Classification of Rights Issues (Amendments to IAS 32) (2011);
- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (amendment to IFRS 1) (2010); and
- Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14) (2011).

3. Financial results

The financial statements include the consolidated results of the Company and its subsidiaries for the year to 31 December 2008. Certain subsidiaries of the Company were sold to third parties during the year and the remaining subsidiaries were transferred to the Company's immediate parent entity, Impala Holdings Limited, at the end of the financial year. Accordingly, the consolidated results include the results of the subsidiary companies to their date of disposal and the statement of consolidated financial position as at 31 December 2008 comprises the statement of financial position of the Company only.

4. Disposals

Disposal of business to Royal London

On 1 May 2008, Impala Holdings Limited acquired 100% of the issued share capital of the Company. On this same date, Impala Holdings Limited and Pearl Group Limited (subsequently renamed Pearl Group Holdings (No. 2) Limited), the parent undertaking of Impala Holdings Limited entered into a framework agreement with the Royal London Mutual Insurance Society Limited ("Royal London") for Royal London to acquire certain subsidiaries, businesses and related assets of the Group. The initial consideration payable to the Group for this transaction was £1,267 million which was subsequently adjusted to £996 million. All consideration was non-cash.

The assets disposed of under this framework agreement were as follows and all disposals were effective 1 May 2008 unless otherwise stated:

- the entire issued share capital of Phoenix Life Assurance Limited;
- the entire issued share capital of Scottish Provident International Life Assurance Limited;
- the entire issued share capital of SPILA Services (Isle of Man) Limited;
- the entire issued share capital of SPILA Services (Hong Kong) Limited;
- protection business of Scottish Mutual Assurance Limited (disposed 28 December 2008);
- protection business of Scottish Provident Limited (disposed 28 December 2008);
- the right to administer the policies of the above businesses; and
- the right to manage the assets of the above businesses.

A net profit of £280 million has been recognised on the transaction. As a result of this transaction, £262 million of cash held within these businesses was disposed of.

The results of the disposed business up to the date of disposal have been included in the consolidated results of the Group as detailed below:

	2008	2007
	£m	£m
Gross premiums written	424	730
Less: premiums ceded to reinsurers	(90)	(243)
Net premiums written	334	487
Fees and commissions	2	4
Net investment income	(101)	181
Total revenue, net of reinsurance payable	235	672
Net income	235	672
Net policyholder claims and benefits incurred	(182)	(376)
Other operating expenses	(35)	(169)
Profit before finance costs	18	127
Finance costs	(12)	(28)
Profit for the year before tax	6	99
Tax charge	(2)	(24)
Profit for the year attributable to owners	4	75

Disposal of subsidiaries

On 31 December 2008, the Company disposed of the entire issued share capital of its remaining investments in subsidiary undertakings to Impala Holdings Limited for consideration of £2,606 million. The consideration comprised the assumption by Impala Holdings Limited of £764 million of loans and associated accrued interest payable by the Company to other group undertakings with the balance of £1,842 million left outstanding as an interest bearing intra-group loan. A loss on disposal of £372 million was recognised. The results of these subsidiaries have been included up to the date of disposal in the consolidated results of the Group. As a result of this transaction, £5,613 million of cash was disposed of.

5. Segmental information

The Group defines and presents operating segments based on the information provided to the Pearl Group Holdings (No. 1) Limited Executive Committee.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the Group.

For management purposes, the Group is organised into business units based on their products and services and has two reportable segments as follows:

- life assurance – this segment offers a wide range of whole life, term assurance and pension products; and
- asset management – this segment provides investment management services to the life companies within the Group and to third parties, covering both retail and institutional investors.

Segment performance is evaluated based on profit or loss which in certain respects is measured differently from profit or loss in the consolidated financial statements. Group financing (including finance costs) and income taxes are managed on a Group basis and are not allocated to individual operating segments.

Inter-segment transactions are set on an arm's length basis in a manner similar to transactions with third parties. Segment results include those transfers between business segments which are then eliminated on consolidation.

2008

	Life assurance	Asset management	Eliminations	Total
	£m	£m	£m	£m
Net premiums written from:				
External customers	1,491	—	—	1,491
	1,491	—	—	1,491
Fees and commissions from:				
External customers	80	91	—	171
Other segment	30	38	(68)	—
	110	129	(68)	171
Net investment income	(2,177)	3	—	(2,174)
Total revenue, net of reinsurance payable	(576)	132	(68)	(512)
Other operating income	71	—	—	71
Net income	(505)	132	(68)	(441)
Net policyholder claims and benefits incurred	(107)	—	—	(107)
Depreciation and amortisation	(185)	(11)	—	(196)
Other operating expenses	817	(96)	68	789
Profit before finance costs	20	25	—	45
Interest expense				(126)
Other finance costs				(1)
Loss for the year before other items				(82)
Gain on disposal of business to Royal London				280
Loss on disposal of subsidiaries				(372)
Loss for the year before tax				(174)
Tax attributable to policyholders returns				31
Loss before tax attributable to owners				(143)
Tax attributable to owners				(37)
Loss for the year				(180)

2007

	Life assurance	Asset management	Eliminations	Total
	£m	£m	£m	£m
Net premiums written from:				
External customers	1,774	—	—	1,774
	1,774	—	—	1,774
Fees and commissions from:				
External customers	68	82	—	150
Other segment	33	53	(86)	—
	101	135	(86)	150
Net investment income	2,361	4	—	2,365
Total revenue, net of reinsurance payable	4,236	139	(86)	4,289
Other operating income	9	—	—	9
Net income	4,245	139	(86)	4,298
Net policyholder claims and benefits incurred	(2,663)	—	—	(2,663)
Depreciation and amortisation	(265)	(11)	—	(276)
Other operating expenses	(1,220)	(96)	86	(1,230)
Profit before finance costs	97	32	—	129
Interest expense				(123)
Other finance costs				(2)
Profit for the year before tax				4
Tax attributable to policyholders returns				146
Profit before tax attributable to owners				150
Tax attributable to owners				(14)
Profit for the year				136

Revenues from external customers attributed to foreign countries are not material.

No revenue transaction with a single customer amounts to greater than 10% of the Group's revenue.

2008

	Life assurance	Asset management	Unallocated corporate	Total
	£m	£m	£m	£m
Total assets	—	—	3,435	3,435
Total liabilities	—	—	89	89

2007

	Life assurance	Asset management	Unallocated corporate	Total
	£m	£m	£m	£m
Total assets	60,949	185	20	61,154
Total liabilities	56,263	116	235	56,614

The Group's non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts) located in all foreign countries are not material.

6. Fees and commissions

	2008	2007
	£m	£m
Fund management based fees	91	82
Other fees	78	59
Commissions	2	9
	171	150

7. Net investment income

	2008	2007
	£m	£m
Investment income		
Interest income on loans and deposits	74	254
Interest income on financial assets designated at fair value through profit or loss on initial recognition	2,083	1,805
Dividends	636	404
Rental income	106	145
	2,899	2,608
Fair value gains/(losses)		
Financial assets at fair value through profit or loss		
Held for trading – derivatives	578	(179)
Designated upon initial recognition	(4,994)	232
Investment property	(657)	(296)
	(5,073)	(243)
	(2,174)	2,365

8. Other operating income

	2008	2007
	£m	£m
Transitional services income	41	—
Other income	30	9
	71	9

Transitional services income represents income generated for services provided to Royal London as a result of the disposals described in note 4.

9. Acquisition costs

	2008	2007
	£m	£m
Acquisition costs paid	72	97
Amortisation of deferred acquisition costs	10	15
	82	112

10. Employee costs

	2008	2007
	£m	£m
Wages and salaries	132	161
Social security contributions	12	13
Other pension costs	7	12
	151	186

11. Other operating expenses

	2008	2007
	£m	£m
Break fee paid to Friends Provident plc	—	49
Other corporate transaction costs	29	28
Deferred consideration paid to the with profit funds on the transfer of Alba Life to the owners' funds	—	12
	29	89

12. Finance costs

	2008	2007
	£m	£m
Interest expense	126	123
Other finance costs	1	2
	127	125
Attributable to – policyholders	77	80
– owners	50	45
	127	125

Coupons paid on the perpetual reset capital securities are charged to the statement of changes in equity.

13. **Tax charge/(credit)**

(a) **Current year tax charge/(credit)**

	2008	2007
	£m	£m
Current tax:		
UK Corporation tax	216	16
Overseas tax	12	3
	228	19
Adjustment in respect of prior years	(10)	(19)
	218	—
Deferred tax:		
Reversal/(origination) of temporary differences		
On non profit surpluses	5	(15)
On amortisation of acquired in-force business	(64)	(61)
On profit arising from the changes in assumptions used for determining insurance liabilities in accordance with PS 06/14	(91)	(57)
On provisions for future expenditure	—	7
Utilisation of tax losses	74	53
Excess expenses and deferred acquisition costs	32	—
Movement in unrealised chargeable gains	(107)	—
Other	3	28
Adjustment relating to change of rate from 30% to 28%	—	(27)
Recognition of previously unrecognised tax loss	(64)	(33)
Write down of deferred tax assets	—	22
Tax losses arising in the current year carried forward	—	(49)
	(212)	(132)
Total tax charge/(credit)	6	(132)
Attributable to – policyholders	(31)	(146)
– owners	37	14
	6	(132)

Unrecognised tax losses of previous years have been used to reduce current tax expense by £nil (2007: £nil) and deferred tax by £63 million (2007: £33 million). The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK life insurance policyholder earnings is included in income tax expense. The tax benefit attributable to policyholder earnings was £31 million (2007: £146 million). The adjustment relating to the change in the rate of tax from 30% to 28% relates to deferred tax on temporary differences which will reverse at a lower effective rate than originally provided due to the reduction in the mainstream corporation tax rate with effect from 1 April 2008.

(b) **Tax charged/(credited) to other comprehensive income**

	2008	2007
	£m	£m
Current tax	—	(3)
Deferred tax	(1)	5
	(1)	2

The current tax credit comprises tax relief relating to share options.

(c) Reconciliation of tax charge/(credit)

	2008	2007
	£m	£m
(Loss)/profit before tax	(174)	4
Policyholder tax	31	146
(Loss)/profit after policyholder tax	(143)	150
Tax at standard UK rate of 28% (2007: 30%)	(41)	45
Untaxed income	—	(3)
Disallowable expenses	10	35
Adjustment to tax charge in respect of prior years	(10)	(19)
Recognition of losses/tax assets not previously valued	(76)	(31)
Increase/(decrease) in deferred tax on movement in non profit surplus	5	(44)
Impact of tax on acquired in-force amortisation at less than 28% (2007: 30%)	(1)	12
Write down of deferred tax assets	—	22
Non-taxable book losses on revaluation of long-term business	20	—
Loss on disposal of subsidiaries	41	—
Movement in unprovided CGT losses	110	—
Non taxable dividends	(31)	—
Movement in prior year deferred tax	7	—
Adjustment relating to the change of rate from 30% to 28%	—	(27)
Other	3	24
Owners' tax	37	14
Policyholder tax	(31)	(146)
Total tax charge/(credit) for the year	6	(132)

14. Dividends on ordinary shares

	2008	2007
	£m	£m
Interim dividend for 2008 at 167p per £0.05 share (2007: 22p per £0.05 share)	1,150	154

On 25 March 2009, the Company gave notice to the holders of the Perpetual Reset Capital Securities of its decision to defer the coupon payment on the Notes which would otherwise have been due for payment on 25 April 2009.

On 23 March 2010, the Company gave notice to the holders of the Notes of its decision to defer the coupon on the Notes which would otherwise have been due for payment on 25 April 2010. The Company announced that if certain amending proposals were agreed by the Noteholders this notice would be withdrawn and the 2010 coupon would be paid in full on the first business day after the payment date of 25 April 2010; in addition the deferred 2009 coupon would be paid by 31 December 2010. These amending proposals were agreed by the Noteholders on 22 April 2010 and the 2010 coupon paid on 26 April 2010.

For so long as a deferred coupon payment has not been satisfied the Company may not declare, pay or distribute a dividend or make a payment on any of its securities in issue ranking junior to the Notes, including the ordinary shares of the Company or any parity securities or, except in particular circumstances, redeem, purchase or otherwise acquire any of its securities in issue ranking junior to the Notes, including its ordinary shares or any parity securities.

15. Share capital

	2008	2007
	£m	£m
Authorised: 1,000 million (2007: 1,000 million) ordinary shares of 5p each	50	50
Issued and fully paid: 688 million (2007: 686 million) ordinary shares of 5p each	34	34

	2008	2007
	million	million
Shares in issue at 1 January	686	685
Shares cancelled	(498)	—
Shares issued	498	—
Shares issued under share option schemes	2	1
Shares in issue at 31 December	688	686

Following the acquisition of the Company by Impala Holdings Limited 498,901,006 ordinary shares were cancelled and then an equivalent number issued to Impala Holdings Limited.

16. Share options

The share-based payment arrangements in existence during the year are set out below. The acquisition of the Company by Impala Holdings Limited on 1 May 2008 triggered vestings across the Group's share schemes. Information on the changes and the effect of this is given for each scheme.

For share options granted before 7 November 2002, the recognition and measurement principles of IFRS 2 *Share-based Payments* have not been applied, as permitted by the transitional provisions in IFRS 1.

The weighted average share price of the Company in the period to the date of acquisition of the Company by Impala Holdings Limited amounted to 698.0p (2007: 659.5p).

The total payments for the year arising from share-based payment transactions was £24 million (2007: £5 million), of which £5 million (2007: £5 million) related to equity-settled share-based payments and £19 million (2007: £nil) to cash-settled share-based payments. The cost of this to the Company was £4 million before tax relief.

In addition, the Company compensated SAYE option holders in cash for the loss of benefit in respect of lapsed share options and bore the cost of income tax and national insurance that would otherwise have fallen on option holders from the early vesting of the share option schemes. The cost of this to the Company was £4 million before tax relief.

The share option equity reserve at 31 December 2008 was £nil (2007: £6 million).

17. Perpetual Reset Capital Securities

	2008	2007
	£m	£m
At 1 January and 31 December	497	497

The Company has in issue £500 million of Perpetual Reset Capital Securities ("the Notes") which are admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange. The proceeds of the issue amounted to £497 million.

The Notes are unsecured obligations of the Company and are subordinate to the claims of senior creditors. Payments in respect of the Notes are conditional upon the Company being solvent at the time of payment and immediately following such payment and also, in respect of coupon payments, having sufficient distributable reserves.

The Notes have no fixed maturity date and interest payments may be deferred at the option of the Company; accordingly the Notes meet the definition of Equity for financial reporting purposes. The Notes also meet the conditions for Innovative Tier 1 capital treatment in the calculation of the Group Capital Resources under the rules of the FSA.

The Notes may be redeemed at par at the option of the Company on the first reset date of 25 April 2016 or on any coupon payment date thereafter. Redemption is subject to the agreement of the FSA. In certain circumstances the Company has the right to substitute the Notes or to redeem the Notes before the first reset date.

Coupons are payable annually in arrears on 25 April at the rate of 6.5864% per annum, until the first reset date. Thereafter coupons are payable semi-annually at 2.73% per annum over the then prevailing offered rate for six-month sterling deposits.

If the Company opts to defer a coupon payment, then it has the option to either leave the coupon outstanding or satisfy the deferred coupon payment by the issue of securities ("ACSM instruments") by either the Company or a special purpose subsidiary of the Company established for the purpose of issuing ACSM instruments and which are guaranteed by the Company. The obligations of the Company in respect of such securities, or if applicable, guarantee will be subordinated to and rank or be expressed to rank junior to the Notes as to rights to payments of interest and participation in the assets of the Company in a winding up and shall comply with the then current requirements of the FSA in relation to Tier 1 Capital. ACSM Instruments will in the first instance be offered to related parties (as defined in the Terms and Conditions of the Notes as amended by the Supplemental Trust Deed dated 30 July 2008) and to third parties if not purchased by related parties. In the event that neither such related parties nor third parties will purchase the required ACSM instruments then Pearl Group Holdings (No. 2) Limited (formerly Pearl Group Limited) is required to use its best endeavours to raise such funds as are deemed necessary to purchase the required amounts of ACSM instruments.

For so long as a deferred coupon payment has not been satisfied the Company may not declare, pay or distribute a dividend or make a payment on any of its securities in issue ranking junior to the Notes, including the ordinary shares of the Company or any parity securities or, except in particular circumstances, redeem, purchase or otherwise acquire any of its securities in issue ranking junior to the Notes, including its ordinary shares or any parity securities.

On 25 March 2009, the Company gave notice to the holders of the Notes of its decision to defer the coupon payment on the Notes which would otherwise have been due for payment on 25 April 2009 and the Company indicated that it had no present intention to initiate the ACSM.

On 23 March 2010 the Company gave notice to the holders of the Notes of its decision to defer the coupon on the Notes which would otherwise have been due for payment on 25 April 2010. The Company announced that if certain amending proposals were agreed by the Noteholders this notice would be withdrawn and the 2010 coupon would be paid in full on the first business day after the payment date of 25 April 2010; in addition the deferred 2009 coupon would be paid by 31 December 2010. These amending proposals were agreed by the Noteholders on 22 April 2010 and the 2010 coupon paid on 26 April 2010.

18. Non-controlling interests

UK Commercial Property Trust Limited

	2008	2007
	£m	£m
At 1 January	192	154
Change in equity attributable to non-controlling interests		
Loss after tax for the year	(33)	(13)
Dividends paid	(10)	(10)
Shares subscribed for by non-controlling interests	—	73
Repurchase of shares from non-controlling interests	—	(10)
Adjustment to interest in net assets	—	(2)
	149	192
Disposals of subsidiaries	(149)	—
At 31 December	—	192

UK Commercial Property Trust Limited ("UKCPT") is a property investment subsidiary which is domiciled in Guernsey and listed on the London Stock Exchange.

On 28 February 2007, UKCPT issued 350 million shares at £1.03 per share. 97 million shares were allocated to the non-controlling shareholders in UKCPT, of which 70 million were subscribed for with the remainder being taken up by Group companies.

In the period from 2 October to 27 November 2007, UKCPT repurchased 12,873,713 shares at an average price of 79.6p, for a total consideration of £10 million. All of these were purchased from the non-controlling shareholders, resulting in the non-controlling shareholders' interest in UKCPT decreasing from 25.2% to 24.1%. The repurchased shares are held in treasury and may be reissued by UKCPT.

19. Liabilities under insurance contracts

	Gross liabilities 2008	Reinsurers' share 2008
	£m	£m
Life assurance business:	—	—
Insurance contracts	—	—
Investment contracts with DPF	—	—
	—	—
General insurance business:		
Outstanding claims provision	—	—
	—	—
Amount due for settlement/recovery after 12 months	—	—

	Gross liabilities 2007	Reinsurers' share 2007
	£m	£m
Life assurance business:		
Insurance contracts	34,286	2,968
Investment contracts with DPF	8,614	—
	42,900	2,968
General insurance business:		
Outstanding claims provision	244	244
	43,144	3,212
Amount due for settlement/recovery after 12 months	38,699	2,634

	Gross liabilities	Reinsurers' share
	£m	£m
At 1 January 2008	43,144	3,212
Premiums	1,677	186
Claims	(5,661)	(305)
Other changes in liabilities	(1,167)	(113)
Foreign exchange adjustments	275	—
	38,268	2,980
Disposals of subsidiaries	(38,268)	(2,980)
As at 31 December 2008	—	—

	Gross liabilities	Reinsurers' share
	£m	£m
At 1 January 2007	45,782	3,198
Premiums	2,104	330
Claims	(5,692)	(326)
Other changes in liabilities	902	10
Foreign exchange adjustments	89	—
Transfer to statement of consolidated comprehensive income in respect of actuarial losses of defined benefit pension scheme	(41)	—
As at 31 December 2007	43,144	3,212

The general insurance business is written by a former subsidiary undertaking that was previously a subsidiary undertaking of Royal & Sun Alliance Insurance Group plc ("RSA"). The Group had in place a fall back perpetual reinsurance arrangement under which the full economic burden and benefit of the business rests with RSA. In addition, RSA had agreed to indemnify the Group against any general insurance liabilities which are not otherwise covered by the reinsurance treaty. This indemnity was unlimited as to time and amount.

20. Unallocated surplus

	2008	2007
	£m	£m
At 1 January	703	702
Foreign exchange adjustment	3	6
Transfer to consolidated income statement	(330)	(2)
Transfer to statement of consolidated comprehensive income in respect of actuarial losses of defined benefit pension scheme	—	(3)
	376	703
Disposals of subsidiaries	(376)	—
At 31 December	—	703

21. Provisions

	Re-structuring	Redundancy	Long-term incentive plan	Pension mis-selling	Other	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2008	18	11	7	1	32	69
Additions in the year	33	2	4	—	30	69
Utilised during the year	(10)	(4)	(10)	—	(37)	(61)
Released during the year	—	—	—	—	(2)	(2)
	41	9	1	1	23	75
Disposals of subsidiaries	(41)	(9)	(1)	(1)	(23)	(75)
At 31 December 2008	—	—	—	—	—	—

The amount due for settlement after 12 months is £nil (2007: £29 million).

Restructuring provisions related principally to the anticipated redundancy costs and leasehold property provisions associated with the closure of the Group's Glasgow Life operations.

The provision for redundancy costs relates to staff that have been transferred under the outsourcing contract with Capita Group plc.

The long-term incentive plan provision represented the estimated benefits accruing to members of the plan as per an independent valuation at the end of June 2007. The scheme membership was made up of senior employees of the asset management business. There were two plans. The seven year plan provided entitlements to payments on the third anniversary of entry to the scheme with further entitlement due, in certain cases, in each of the subsequent four years. The three year plan matured after three years, with members being entitled to cash payments. Both plans provided for the ability to retain benefits beyond the seven and three year periods respectively.

The other provisions included litigation, closed property and onerous contract provisions.

22. Investment contract liabilities

	2008 Gross liabilities	2008 Reinsurers' share
	£m	£m
Amount due for settlement/recovery after 12 months	—	—

	2007 Gross liabilities	2007 Reinsurers' share
	£m	£m
Amount due for settlement/recovery after 12 months	8,099	—

23. Group capital management

Prior to the disposal of its regulated subsidiaries the Group's policy was to maintain a strong and flexible capital base so as to retain a strong credit rating and satisfy regulators whilst still creating shareholder and policyholder value. The Group's capital management policies included key performance indicators in respect of gearing and interest cover. Another key performance indicator of the Group, return on embedded value, measured the extent to which the Group was providing an appropriate return on the capital employed. The Individual Capital Assessment ("ICA") process, as explained in note 48.l(c), estimated the level of capital the Group needed to retain to ensure that there was only an extremely small risk the Group would be unable to meet its liabilities. Although the ICA is an internal process, the FSA may use ICA information in discussing the target capital levels it believes the Group should have available. Group capital adequacy requirements are set out in the Insurance Groups Directive and were a further measure of the Group's overall capital position.

Whilst the Group contained regulated subsidiares the Group capital position was monitored by the Group Capital Management committee. The committee monitored the Group capital composition and position against the Group targets which were regularly reviewed to ensure that they remain appropriate to maximise value for policyholders and owners. The level of required capital of the Group was the greater of:

- the amount of capital required to meet regulatory capital adequacy requirements;
- the capital required under the Group's capital management policy (ICA); and
- the commitments made to credit rating agencies.

There were no material changes in the Group's management of capital during the year prior to the disposal of its subsidiaries. Following disposal of its subsidiaries, the Group ceased to be subject to regulatory capital considerations and from this point on the Board of the Company monitored the total equity of the Company which it considers represents its capital.

The Group and its individually regulated operations had complied with all externally imposed capital requirements throughout the period prior to the disposal of the regulated subsidiaries.

The capital position and requirements of the UK life assurance businesses for the year ended 31 December 2007 are set out in more detail in note 24.

24. Capital statement

Set out below is a statement of the Group's capital resources related to life assurance business at 31 December 2007. This information is presented for each of the Group's major UK with profit funds ("WPF"), namely Scottish Mutual Assurance Limited ("SMA"), Scottish Provident Limited ("SPL"), Phoenix & London Assurance Limited ("PALAL") and Phoenix Life Limited ("PLL").

A statement of the Group's capital resources related to life assurance business at 31 December 2008 has not been provided as this statement relates to the position as at the end of the year by which time the Group had disposed of its life assurance business and in addition satisfied the criteria for exemption from providing the required disclosures.

(a) Capital statement

31 December 2007	SMA WPF	SPL WPF	PALAL WPF	PLL Phoenix WPF	PLL Britannic WPF	Other WPFs	Shareholder and non profit funds	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Owners funds								
Outside long-term fund	—	—	22	—	—	—	3,381	3,403
Inside long-term fund	—	—	—	—	—	—	1,654	1,654
Other qualifying capital								
Subordinated debt	—	—	200	—	—	—	200	400
Unallocated surplus	15	97	42	154	311	84	—	703
Regulatory adjustments								
Assets	—	—	(5)	(2)	(1)	—	(3,250)	(3,258)
Liabilities	542	1,178	132	944	608	367	199	3,970
Total available capital resources	557	1,275	391	1,096	918	451	2,184	6,872
Capital requirement								
UK realistic basis	550	1,218	391	1,002	728	432	—	4,321
Other regulatory bases	—	—	—	—	—	—	746	746
Overall surplus capital over regulatory requirements at 31 December 2007	7	57	—	94	190	19	1,438	1,805

Analysis of policyholders' net liabilities at 31 December 2007	SMA WPF	SPL WPF	PALAL WPF	PLL Phoenix WPF	PLL Britannic WPF	Other WPFs	Shareholder and non profit funds	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Insurance contracts	2,833	3,330	5,520	6,545	1,040	2,934	8,658	30,860
Investment contracts with DPF	2,537	668	—	—	3,674	407	1,354	8,640
Investment contracts	—	—	—	—	45	—	7,945	7,990
Total technical liabilities	5,370	3,998	5,520	6,545	4,759	3,341	17,957	47,490

The total technical liabilities at 31 December 2007 exclude the liabilities of Scottish Provident International Life Assurance Limited, a company incorporated in the Isle of Man.

Reconciliation of owners' funds

The owners' funds in the capital statement can be reconciled to Group owners' funds as follows:

	2007
	£m
Owners' funds of life businesses	5,057
Value of acquired in-force business	850
Goodwill	209
Intangible asset – distribution agreements	72
Asset management business	71
Management services business	90
Non-controlling interest in the net worth of UK Commercial Property Trust	192
Other non-UK life companies, non-life companies and holding companies	(1,942)
Group owners' funds	4,599

The regulatory liabilities for all of the UK's with profit funds including SMA, SPL, PALAL, the Phoenix with profit fund, the Britannic with profit fund and the other PLL with profit funds have been determined taking account of the requirement in the Board of Actuarial Standards' Guidance Note, GN45, to show zero working capital for a realistic basis with profit fund that is closed to new business. If these requirements were disregarded, the surplus capital over regulatory requirements would increase by £147 million, £312 million, £nil, £167 million, £184 million and £250 million respectively.

(b) Change in available capital

The change in available capital for 2007 is set out in the table below:

	SMA WPF	SPL WPF	PALAL WPF	PLL Phoenix WPF	PLL Britannic WPF	Other WPFs	Shareholder and non profit funds	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Available capital at 1 January 2007, before reclassification	563	1,231	377	1,358	992	678	2,954	8,153
Reclassification of capital resources	—	—	—	—	—	(164)	164	—
Available capital at 1 January 2007, as reclassified	563	1,231	377	1,358	992	514	3,118	8,153
Changes in assumptions used to measure life insurance liabilities	—	—	(31)	(81)	10	45	72	15
Inadmissible loans to Group companies	—	—	—	—	—	—	(619)	(619)
New business and other factors	(6)	44	45	(181)	(84)	(108)	(387)	(677)
Available capital at 31 December 2007	557	1,275	391	1,096	918	451	2,184	6,872

Changes in assumptions used to measure life insurance liabilities

The decrease in available capital resources for the Phoenix with profit fund of £81 million arises from a decrease in the valuation interest rate.

Inadmissible loans to Group companies

The movement in inadmissible loans of £619 million relates to the loans made by the former Abbey Life life businesses to the Group and are made out of the available capital in excess of that required to meet the Group's capital management policies.

New business and other factors

The decrease of £84 million in the Britannic with profit fund's available capital resources is mainly due to a change in unappropriated surplus to fund reversionary and terminal bonuses, partially offset by favourable changes in valuation interest rates and economic and experience variances. The decrease of £181 million in the Phoenix with profit fund is mainly due to negative experience, economic and investment variances and a change in unappropriated surplus to fund reversionary and terminal bonuses.

(c) Internal group financing and other arrangements

The Group has several internal Group financing arrangements in place. Details of these arrangements are set out below:

PALAL subordinated loan agreement

PALAL has a loan facility with Pearl Life Holdings Limited (formerly Resolution Life Limited) ("PLHL"), the immediate parent company. Financial support is provided where it is anticipated that PALAL would have insufficient capital to meet the "Capital Test". The Capital Test requires there to be sufficient capital to meet both the Pillar 1 and Pillar 2 capital requirements with an excess of at least £50 million.

The loan is repayable at PALAL's discretion, subject to providing at least 6 months notice to PLHL and to the FSA, but only if the Capital Test is met and only then with the consent of the FSA. The amount available under the subordinated loan agreement is limited to £200 million. At the end of 2007, the company had drawn down £200 million under the facility.

PALAL internal capital support memorandum

PALAL has agreed with PLHL and with the FSA that it will establish memoranda accounts within the shareholders' and long-term fund to provide financial support to the long-term fund. The amount credited to the shareholders' memorandum account at the end of 2007 was £200 million, being the amount received under the subordinated loan agreement. Assets are transferred from the shareholders' memorandum account to the long-term funds memorandum account when the value of assets of the long-term fund have fallen (or are likely to fall) below the "threshold amount". The threshold amount is £25 million in excess of the requirements under both the statutory and realistic solvency regulations.

The amount transferred from the shareholders' memorandum account to the long-term fund memorandum account at the end of 2007 was £207 million, including accrued interest. In relation to these transfers, £91 million was required to achieve a realistic basis surplus of zero.

PLL capital support

In the event that the value of the assets of any with profit fund within PLL falls below the regulatory minimum value of assets which must be held in that fund plus 0.5% of the with profit benefit reserve ("WPBR") (or £5 million if greater), support will be provided to that fund by way of a loan arrangement from the PLL non profit fund or the PLL shareholders' fund to the extent that the PLL board determines that there are assets in those funds available to make such a loan.

At the end of 2007, £12 million was repaid to the non profit fund by the Alba with profit fund under a contingent loan arrangement, although £30 million was subsequently drawn down. No support was required by any of the other with profit funds.

PPL capital support

During 2007, the non profit fund of PLL made a contingent loan of £200 million to the non profit fund of PPL to support the solvency of PPL. At the end of 2007, the loan amount outstanding was £200 million.

Life Division loans to PLHL

As a result of dividend restrictions surplus funds totalling £2.47 billion have been loaned by SMA, SPL, Phoenix Life Assurance Limited ("PLAL") and Scottish Mutual International Holdings Limited ("SMIH") to PLHL. The loans are interest-bearing, repayable on demand by the lender and PLHL may repay the loans at any time.

Loans made by PLL to PLHL at 31 December 2007 totalled £325 million. The loans are interest bearing, repayable on demand by the lender and PLHL may repay the loans at any time.

Internal reassurance

The following internal reassurance agreements were in place as at 31 December 2007:

- a significant portion of the Scottish Mutual International Limited ("SMI") with profit business is reassured into the SMA with profit fund;
- all of the with profit business of PLAL is reassured into the SMA with profit fund;
- a significant portion of the immediate annuity business of the PLL, SMA, SPL and PLAL non profit funds is reassured into the PPL non profit fund; and
- a significant portion of the deferred annuity business of the PLL non profit fund is reassured into the PPL non profit fund.

Investment management agreements

As at the end of 2007, the majority of the Group's life companies had entered into contractual arrangements with Ignis Asset Management Limited (formerly Resolution Asset Management Limited), a fellow subsidiary, for the management of their assets.

Management services agreements

Most life subsidiaries of the Group have entered into contractual agreements with a fellow subsidiary, Pearl Group Management Services Limited (formerly Resolution Management Services Limited), for the provision of administrative services. Accordingly, expense risks are now generally borne by the management services company.

Following a review of policy administration, the Group reached agreement with Capita Group plc to contribute customer service and IT functions of Pearl Group Management Services to a jointly designed servicing model, effectively outsourcing these functions to Capita Group plc.

(d) Regulatory capital requirements

Each UK life insurance company must retain sufficient capital to meet the regulatory capital requirements mandated by the FSA; life insurance businesses based in Ireland and the Isle of Man, however, have requirements set by the local regulator. The following comments apply to FSA-regulated businesses comprising the majority of the Group's total life insurance businesses.

With the exception of the with profit businesses the regulatory capital requirement is a combination of amounts held in respect of investment, expense and insurance risks (the long-term insurance capital requirement) and additional amounts, if required, covering the more onerous of two specified stress tests. The regulatory capital requirement is deducted from the available capital resources to give 'regulatory basis excess capital'.

For the with profit businesses, a further test is required in respect of the with profit funds which compares the level of 'realistic basis excess capital' to the 'regulatory basis excess capital' and, in circumstances where the 'realistic basis excess capital' position is less, that company is required to hold additional capital to cover the shortfall. The 'realistic basis excess capital' is calculated as the difference between realistic assets and realistic liabilities of the with profit fund with a further deduction to cover various stress tests. Any additional capital requirement under this test is referred to as the with profit insurance capital component ("WPICC").

Amounts have been maintained outwith the with profit funds in SPL (£125 million) and SMA (£220 million) in respect of risks arising in the respective with profit funds as Risk Based Capital ("RBC"). These RBC amounts will only be utilised after taking into account any management actions deemed appropriate and are not expected to be utilised on a realistic basis.

(e) Basis of determining regulatory capital

The following comments again apply to FSA-regulated businesses comprising the majority of the Group's total life insurance businesses:

Available capital resources

Available capital resources represent the excess of assets over liabilities calculated in accordance with detailed regulatory rules issued by the FSA. Different rules apply depending on whether the regulatory basis or the realistic basis excess capital is being calculated. Some differences also apply to the calculation of with profit liabilities on the regulatory basis depending on whether or not a WPICC is required.

Regulatory basis

Assets are generally valued on a basis consistent with that used for accounting purposes although there are restrictions over the admissibility of certain assets and limitations on the value of certain assets depending on such matters as risk concentration (for example, counterparty risk).

Liabilities are calculated using a projection of future cash flows after making assumptions, *inter alia*, on future investment returns, expenses, mortality, and, in some instances persistency, all of which include margins for adverse deviation. Discount rates used to value the liabilities are set with reference to the risk adjusted yields on the underlying assets and to yields obtainable on future investments and reinvestments. Other assumptions are based on recent actual experience, supplemented by industry information where appropriate. In most cases, the assessment of liabilities does not include future bonuses for with profit policies that are at the discretion of the company, but does include a value for policyholder options likely to be exercised.

For with profit businesses, if a WPICC calculation is required, yields obtainable on future investments are calculated taking into account the forward yield curve at the date of the valuation and allowance is made in some cases for future early terminations.

Realistic basis

The FSA requires each life insurance company that has with profit liabilities exceeding £500 million to carry out a 'realistic' valuation of its with profit funds. The word 'realistic' in this context reflects the terminology used for reporting to the FSA and is an assessment of the financial position of a with profit fund calculated under a prescribed methodology. The methodology is intended to reflect the market value of the assets and a 'market-consistent' value of the liabilities of the fund.

The valuation of with profit assets in the with profit funds on the realistic basis differs from the valuation on the regulatory basis as, in respect of non profit business written in the with profit funds, it includes the present value of the anticipated future release of the margins for adverse deviation. Further, the realistic valuation uses the market value of admissible assets without the restrictions affecting the regulatory basis noted above. The realistic valuation of with profit liabilities is based upon 'asset shares', which are the accumulation of premiums less charges or other deductions and additions at the earned rate of return and which are used as a guide to the final bonus rates which can be supported. The valuation of financial guarantees or options embedded within policies is carried out using a stochastic simulation model that values liabilities on a basis consistent with tradeable market option contracts (a 'market-consistent' basis). The model is, however, calibrated to gilt yields plus ten basis points rather than to swap yields. The model takes account of policyholder behaviour on a best-estimate basis and includes an adjustment to reflect future uncertainties where the exercise of options by policyholders might increase liabilities.

(f) Sensitivity to market conditions of liabilities and components of capital

Owners' funds

Owners' funds outside the long-term business funds are invested in a variety of assets. Some of these assets are sensitive to market conditions.

With profit funds

The with profit realistic liabilities and the available capital for the with profit funds are sensitive to both market conditions and changes to a number of non-economic assumptions that affect the valuation of the liabilities of the funds. The available capital resources (and capital requirements) are sensitive to the level of the stock market, with the position worsening at lower stock market levels as a result of the guarantees to policyholders increasing in value. An increase in the level of equity volatility implied by the market cost of equity put options also increases the market consistent value of the options given to policyholders and worsens the capital position.

In addition, the with profit funds hold significant amounts of corporate bonds. Therefore, there is a significant sensitivity to changes in corporate bond spreads and to changes in interest rates and yield curves. The most critical non-economic assumptions are the level of take-up of options inherent in the contracts (higher take-up rates are more onerous), mortality rates (lower mortality rates at older ages are more onerous) and lapses prior to dates at which a guarantee would apply (lower lapse rates are generally more onerous where guarantees are in the money). The sensitivity of the capital position and capital requirements of the with profit funds is partly mitigated by the actions that can be taken by management.

Other long-term funds

Outside the with profit funds, assets backing actuarial reserves in respect of policyholder liabilities are invested so that the assets and liabilities are broadly matched. A key non-economic assumption is mortality rates in respect of annuity business (lower mortality rates are more onerous). The Group has reduced its exposure to deteriorating mortality rates in respect of life assurance contracts through reinsurance arrangements. The Group is also exposed to mortality risk on assured lives even though some of the risk has also been mitigated through reassurance arrangements.

In addition, poor cost control would gradually deplete the available capital and lead to an increase in the valuation of the liabilities (through an increased allowance for future costs). However, this risk has largely been mitigated through the implementation of the management services agreements.

(g) Capital management policies and objectives

The capital position is monitored by a management committee appointed to oversee the business. This committee monitors the regulatory position using the Group's own assessment of capital resources and requirements against targets which themselves are subject to regular review to ensure that they remain appropriate to maximise value for policyholders and shareholders.

In determining the capital policies the Group takes into account the previously described realistic and regulatory requirements, alternatively described as "Pillar 1" requirements. It also takes into account the ICA methodology, described in note 48.1(c), which is an assessment of all risks borne by each regulated entity and which is commonly referred to as "Pillar 2".

This approach ensures that each Group company is able to meet regulatory requirements at all times. The Group's policies are set out below:

PLL

The with profit funds held within PLL include the Phoenix with profit fund, the Alba with profit fund, the 90% fund, the 100% fund, the Britannic with profit fund and the Britannic IB fund.

PLL intends to hold amounts of capital in excess of liabilities on each of the following three bases:

Test 1: Pillar 1

The sum of:

- in respect of each with profit fund, the proportion of the Capital Resources Requirement ("CRR") attributable to that fund, plus an amount equal to the greater of any positive free assets and 200% of the proportion of the Long Term Insurance Capital Requirement ("LTICR") attributable to that fund less its WPICC; and

- in respect of the non profit fund, 125% of its CRR less the sum of any positive free assets for each with profit fund plus 25% of the capital requirements of PPL plus £51 million. A negative net result is permitted.

Test 2: Pillar 2 (ICA)

The sum of:

- in respect of each with profit fund, 140% of its ICA, subject to a minimum of the ICA plus 1% of the WPBR; and
- in respect of the non profit fund, 140% of its ICA plus £51 million.

Test 3: (ICA+ICG)

The sum of:

- in respect of each with profit fund, 110% of its ICA plus 110% of any additional capital which the FSA indicates via ICG should be held; and
- in respect of the non profit fund, 110% of ICA plus 110% of ICG plus £51 million.

When calculating whether the total capital available in PLL satisfies each basis, any excess capital in a with profit fund over the required capital for that fund will not be taken into account.

PPL

PPL intends to hold amounts of capital in excess of liabilities on each of the following three bases:

Test 1: Pillar 1

110% of CRR

Test 2: Pillar 2 (ICA)

110% of ICA

Test 3: (ICA+ICG)

110% of ICA plus 110% of ICG

PALAL

For PALAL, the Group has undertaken to maintain sufficient capital to cover:

- Pillar 1 capital requirements by a margin of at least £50 million; and
- Pillar 2 ICA capital requirements, as adjusted by any ICG, by a margin of at least £50 million.

SMA

SMA intends to hold amounts of capital in excess of liabilities on each of the following three bases:

Test 1: Pillar 1

The sum of:

- in respect of the with profit fund, 100% of Pillar 1 CRR plus 50% of the LTICR; and
- in respect of the non profit fund, 135% of its CRR.

Test 2: Pillar 2 (ICA)

The sum of:

- in respect of the with profit fund, 140% of its ICA; and
- in respect of the non profit fund, 150% of its ICA.

Test 3: (ICA+ICG)

110% of the ICA plus 110% of ICG for both the with profit fund and non profit fund.

SPL

SPL intends to hold amounts of capital in excess of liabilities on each of the following three bases:

Test 1: Pillar 1

The sum of:

- in respect of the with profit fund, 100% of Pillar 1 CRR plus 50% of LTICR; and
- in respect of the non profit fund, 125% of its CRR.

Test 2: Pillar 2 (ICA)

140% of the ICA for both the with profit fund and non profit fund.

Test 3: (ICA+ICG)

110% of the ICA plus 110% of ICG for both the with profit fund and non profit fund.

PLAL

PLAL intends to hold amounts of capital in excess of liabilities on each of the following three bases:

Test 1: Pillar 1

135% of the non profit fund CRR.

Test 2: Pillar 2 (ICA)

150% of the non profit fund ICA.

Test 3: (ICA+ICG)

110% of the non profit fund ICA plus 110% of ICG.

SMI

SMI intends to hold 150% of the Irish regulatory minimum required capital.

Scottish Provident International Life Assurance Limited ("SPILA")

SPILA intends to hold 150% of the maximum of both the Hong Kong and Isle of Man regulatory solvency capital.

(h) Assumption setting

The process for setting the assumptions used to value the liabilities takes account of a variety of factors such as market information at the valuation date on yields and volatility, the yields on the investments actually held at the valuation date and historic information on observed rates of default on corporate bonds. In addition, due cognisance is taken of actual experience of mortality, sickness, persistency and option take-up rates for some of the larger product types and generally of industry data for mortality and sickness rates.

This information is reviewed and analysed by the actuarial department (including the heads of actuarial function and with profit actuaries where relevant) and appropriate recommendations are made to the life subsidiary boards. The boards approve the assumptions used.

(i) Policyholder options and guarantees

Some of the Group's products give potentially valuable guarantees, or give options to change policy benefits which can be exercised at the policyholder's discretion. These products are described below. Where the contracts are non profit contracts, appropriate quantification is given of any potentially significant guarantees.

Most with profit contracts give a guaranteed minimum payment on a specified date or range of dates or on death before that date or dates. For pensions' contracts, the specified date is the policyholder's chosen retirement date or a range of dates around that date. For endowment contracts, it is the maturity date of the contract. For with profit bonds it is often a specified anniversary of commencement, in some cases with further dates thereafter. Annual bonuses when added to with profit contracts usually increase the guaranteed amount.

There are guaranteed surrender values on a small number of older contracts.

Some pensions' contracts include guaranteed annuity options which expose the Group to interest rate and longevity risk. The total liabilities included in the with profit funds in respect of these guarantees are £1,169 million. The total liabilities included in the non profit funds in respect of these guarantees are £28 million.

With profit deferred annuities participate in profits only up to the date of retirement. At retirement, a guaranteed cash option allows the policyholder to commute the annuity benefit into cash on guaranteed terms.

There is a block of immediate and deferred annuities within the non profit business where benefits are linked to changes in the Retail Price Index ("RPI") but with contractual maximum or minimum increases. In particular, most of these annuities have a provision that the annuity will not reduce if the RPI falls. The liabilities in respect of such annuities in payment at 31 December 2007 were £516 million.

25. Borrowings

	2008	2007
Non-current liabilities	**£m**	**£m**
Bank loan	—	120
Subordinated loans	—	210
	—	330

	2008	2007
Current liabilities	**£m**	**£m**
Bank loan	—	115
Subordinated loans	—	11
	—	126
Total borrowings	—	456

The £235 million bank loan was repayable in instalments of £115 million in April 2008 and £120 million in April 2009. The loan carried an annual interest rate of between 30 and 70 basis points above LIBOR and was charged at a rate of 30 basis points above LIBOR. Following the acquisition of the Company by Impala Holdings Limited the bank loan was fully repaid in May 2008.

SMA issued £200 million 7.25% undated, unsecured subordinated loan notes on 23 July 2001. The earliest repayment date of the notes was 25 March 2021 and thereafter on each fifth anniversary so long as the notes were outstanding. The Group had entered into interest rate swap agreements with Abbey National Treasury Services plc, the effect of which was to convert the fixed interest expense on the notes to a floating rate expense. In the event of the winding-up of the Group, the right of payment under the notes was subordinated to the rights of the higher-ranking creditors (principally policyholders).

26. Deposits received from reinsurers

	2008	2007
	£m	**£m**
Amount due for recovery after 12 months	—	441

27. Deferred income

	2008	2007
	£m	£m
Amount due for recovery after 12 months	—	46

28. Trade and other payables

	2008	2007
	£m	£m
Trade and other creditors	4	476
Collateral creditors	—	25
	4	501
Amount due for recovery after 12 months	—	20

Information on the collateral creditors is given in note 38.

29. Pension schemes

(a) Defined contribution schemes

Prior to the disposal by the Company of its subsidiary undertakings on 31 December 2008, the Group participated in the PGL Pension Scheme (formerly the Resolution Group Pension Scheme) defined contribution section.

Contributions in the year to defined contribution schemes amounted to £3 million (2007: £6 million).

(b) Defined benefit schemes

Introduction

The Group participates in the PGL Pension Scheme defined benefit section ("the Scheme"), the Scheme being a final salary arrangement which is generally closed to new entrants. Prior to the disposal of its subsidiaries on 31 December 2008, the Group results reflect participation in 100% of the Scheme. Following this disposal, the Group results reflect the Company only participation with the surplus allocated in the ratio 37:63 between the Company and Pearl Group Management Services Limited, a former subsidiary undertaking.

The assets of the Scheme are held in a separate trust fund to meet the long-term pension liabilities for past and present members.

The Trustees of the Scheme are required to act in the best interest of the Scheme's beneficiaries. The appointment of Trustees to the fund is determined by the Scheme's trust documentation and statutory requirements. The Scheme's Board of Trustees currently comprises six individual Trustee positions half of which are nominated by the Group and half of which are nominated by the members ("Member Nominated Trustees").

Under the Scheme rules, the contributions payable to the Scheme by the participating employers are determined by the Scheme Actuary, who is appointed by the Trustees. However, under the terms of the Pensions Act 2004 the Trustees are now required to agree the contributions with the Group subject to the Scheme Actuary certifying that the resulting contributions are no lower than he would have set had he retained the sole power to determine the contributions. The participating employers are consulted whenever the principles under which the Scheme is funded and invested are reviewed.

If an employer ceased to participate in the Scheme, a final contribution would be payable on cessation, as determined by the Scheme Actuary but subject to any statutory requirements and the requirements of the Scheme rules.

The carrying value of the Scheme is set out below:

	2008	2007
	£m	£m
Economic surplus	135	79
Adjustment for insurance policies held with related parties	—	(59)
	135	20
Disposal of subsidiaries	(85)	—
Reported surplus	50	20

Principal assumptions

The main financial assumptions used to calculate movements in the liabilities of the Scheme for inclusion in these financial statements are set out below, together with equivalent assumptions at the end of 2007.

The discount rate is derived from the yields available on AA rated corporate bonds at the measurement date. The inflation assumption is derived from the yields available in the gilt market at the measurement date and the other assumptions are derived to be consistent with the inflation assumption.

	2008	2007
	%	%
Rate of general long-term increase in salaries	3.9	4.4
Rate of increase in pensions	2.8	3.4
Discount rate	6.3	5.8
Inflation	2.9	3.4
Expected rate of return on scheme assets	4.6	5.2

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements and are taken from the triennial valuation as at 30 June 2006.

Using these assumptions, the table below shows the average life expectancy for members of different ages, retiring at age 57:

Sex	Current age	Life expectancy (years)
Male	40	33.5
Female	40	34.8
Male	50	32.1
Female	50	34.0

It has been assumed that post retirement mortality is in line with standard tables PXA00 with a scaling factor of 105% being applied, allowing for future improvements in line with the long cohort improvement factors, subject to a minimum level of improvement of 1.25% per annum and 0.75% per annum for males and females respectively.

Risks arising from financial instruments

Most of the liabilities of the Scheme relate to members who have already ceased pensionable service and whose future benefit levels are now essentially fixed in absolute terms or relative to price inflation. This allows an investment strategy to be adopted that attempts overall to provide matching investments to the future expected benefit payments due, despite the uncertainty over future life expectancy and other demographic factors such as future choices of retirement dates.

The majority of the Scheme's investment holdings have been specifically selected to try to protect the Scheme against changes in bond yields and inflation. Therefore the assets and liabilities of the Scheme should move broadly in line in response to changes in investment market conditions although the correlation will reduce when there are more extreme market movements. The assets held consist mainly of a mixture of fixed interest and index-linked bonds, swap instruments and more liquid investments. The Scheme holds derivative instruments to increase the duration of the income available from the bond portfolio and to provide income related to price inflation as a closer match to the expected benefit increases.

This investment approach has been adopted since November 2004. The effect of this approach, whilst restricting the possibility of investment gains, has been to reduce significantly the possibility of losses from investment performance. Some mismatching risks are taken within this portfolio, for example to benefit from investment opportunities in the corporate bond market.

The remainder of the Scheme's assets (around 15%) are mainly invested in commercial properties and the expected excess long-term returns from this asset class above the yields available on corporate bonds provide some protection against the longevity exposure. However, this exposure does introduce more potential volatility than would otherwise have been the case.

The experience of this investment strategy to date has been reasonably positive, with a more stable funding position prevailing despite investment market volatility.

Measurement of liabilities

The level of retirement benefit under the Scheme is principally based on basic salary earned in the last 12 months of employment.

The liabilities of the Scheme are measured for financial reporting purposes by discounting the best estimate of future cash flows to be paid out by the Scheme using the projected unit method. Under the projected unit method the value placed on benefits earned to date reflects only the pensionable service completed to the measurement date, but does allow for the effect of all future projected salary increases in valuing the benefits that have been earned. The cost of benefits accrued in the next year (the service cost) is determined based on pensionable service in that year with allowance for future increases in pensionable salary.

The triennial funding valuation used to determine future contributions is carried out in a similar manner but with some assumptions derived differently as the funding valuation is required to include a margin for prudence.

The other key measure of the liabilities is the cost of securing benefits earned to date on a guaranteed basis with an insurance company, which is the liability measure that must be funded if the Scheme were to be wound up in future. Hence this represents the amount that would be required to settle the Scheme's liabilities if the Group were to cease funding the Scheme on an ongoing basis. As at 30 June 2006, the Scheme Actuary estimated the amount required to settle the Scheme's liabilities was £1,321 million, compared with assets available at that date of £1,084 million. It is possible that the increased competition among insurance companies for bulk pension contracts has subsequently improved this position significantly.

Future funding obligations

The comparative amounts for 2007 include a cost of changes in longevity assumptions amounting to £38 million, based on the results of the triennial valuation as at 30 June 2006. This is in addition to a cost of £49 million provided in the financial statements for the year ended 31 December 2006, based on the draft triennial valuation at that time. This cost is included in actuarial gains and losses within the statement of consolidated comprehensive income for 2007.

In accordance with an agreement dated November 2005, certain of the Group's with profit funds have indemnified the Group's owners in respect of contribution calls equal to their share of the costs of changes in the longevity assumptions. Completion of the triennial valuation has resulted in contribution calls totalling £75 million being made for the five year period to June 2012. Of this, £58 million has been attributed to the with profit funds and accordingly a contribution in respect of actuarial losses has been made by the with profit funds of £44 million being this amount, less tax, which has been recognised in the statement of consolidated comprehensive income.

Financial information

The reported pension costs and supporting information are set out below and have been calculated in compliance with IAS 19 *Employee Benefits.* The calculations are derived from the triennial valuation of the Scheme as at 30 June 2006, adjusted to allow for investment experience and anticipated cash flows to 31 December 2008. They have been carried out by independent qualified actuaries.

The present values of the defined benefit obligation and the related current service cost were measured using the projected unit credit method.

The amounts recognised in the consolidated income statement are as follows:

	2008	2007
	£m	£m
Current service cost	(4)	(6)
Interest cost	(59)	(53)
Expected return on scheme assets	52	55
Gain on curtailments	—	2
	(11)	(2)

The amounts recognised in the statement of consolidated comprehensive income are as follows:

	2008	2007
	£m	£m
Actuarial gains	104	—

The net actuarial gains and losses recognised during the year comprises the following:

	2008	2007
	£m	£m
Actual return less expected return on scheme assets	(61)	(11)
Experience gains and losses arising on scheme liabilities	(4)	(8)
Changes in assumptions underlying scheme liabilities	169	19
	104	—

The cumulative net actuarial gains recognised in the statement of consolidated comprehensive income since 1 January 2004 amounts to £89 million.

The amounts recognised in the statement of consolidated financial position are as follows:

	2008	2007
	£m	£m
Fair value of scheme assets	390	1,081
Present value of defined benefit obligation	(340)	(1,061)
Net surplus	50	20

The actual return on the Scheme assets comprises the following:

	2008	2007
	£m	£m
Expected return on scheme assets	52	55
Actuarial losses on scheme assets	(61)	(11)
	(9)	44

The change in the present value of the defined benefit obligation is as follows:

	2008	2007
	£m	£m
At 1 January	1,061	1,059
Current service cost	4	6
Interest cost	59	53
Gain on curtailments	—	(2)
Actuarial losses	(165)	(11)
Benefits paid	(41)	(44)
	918	1,061
Disposal of subsidiaries	(578)	—
At 31 December	340	1,061

The defined benefit obligation arises from plans that are wholly funded.

The change in the fair value of the Scheme assets is as follows:

	2008	2007
	£m	£m
At 1 January	1,081	1,081
Expected return on scheme assets	52	55
Actuarial losses on scheme assets	(61)	(11)
Contributions by the employer	23	—
Benefits paid	(42)	(44)
Disposal of subsidiaries	1,053	1,081
	(663)	—
At 31 December	390	1,081

The distribution of the Scheme assets at the end of the year was as follows:

	2008	2007
	£m	£m
Bonds	362	938
Properties	47	162
Cash and other	(19)	(19)
	390	1,081

Table of historical information

	2008	2007	2006	2005	2004
	£m	£m	£m	£m	£m
Fair value of scheme assets	390	1,081	1,081	1,122	980
Defined benefit obligation	(340)	(1,061)	(1,059)	(1,034)	(878)
Net surplus in scheme............	50	20	22	88	102
Experience (losses)/gains on scheme assets.....................	(61)	(11)	(17)	90	16
Experience (losses)/gains on scheme liabilities................	(4)	(8)	6	(2)	(1)

In addition, the Group participates in the SP Institution Staff Pension Scheme for Employees in the Republic of Ireland.

30. Loans to parent and group undertakings

	2008	2007
	£m	£m
At 1 January	—	—
Loans previously eliminated on consolidation	897	—
Additions	2,690	—
Repayments	(401)	—
At 31 December	3,186	—
Amount due for recovery after 12 months	3,186	—

(a) On 1 August 2008, the Company provided a loan to Impala Holdings Limited of £736 million. The loan accrues interest at six month LIBOR plus 2.94% which is capitalised half yearly on 7 April and 7 October. Interest of £12 million was capitalised during the year. The loan has a maturity date of December 2016.

(b) On 4 December 2008, the Company provided a loan to PLHL of £55 million. The loan accrues interest at six month LIBOR plus 2.94% which is capitalised half yearly on 7 April and 7 October. The loan has a maturity date of December 2016 or can be repaid as agreed between the borrower and the Company.

(c) On 26 September 2008, the Company provided a loan to PLHL of £45 million. The loan accrues interest at 12 month LIBOR plus 2.00% which is capitalised annually on 31 December. The loan has a maturity date of December 2016 or can be repaid as agreed between the borrower and the Company.

d) On 31 December 2008, the Company disposed of the entire issued share capital of its investments in subsidiary undertakings to Impala Holdings Limited. £1,842 million was left outstanding as an interest bearing intra-group loan. The loan will accrue interest at 6 month LIBOR plus 3.42% which will be capitalised half yearly on 30 June and 31 December. The loan is repayable upon demand but has a final maturity date of December 2016.

(e) During the year, PLHL made repayments totalling £401 million in respect of the £2,943 million loan facility issued to it on 31 August 2006. The balance of this loan stands at £7 million at the year end. The loan is repayable on demand.

(f) In September 2007, the Company granted a revolving credit facility of £110 million to Pearl Group Management Services Limited. As at 31 December 2008, £30 million has been drawn down (2007: £30 million). Interest is calculated at six month LIBOR plus 2.00%. Repayment of the loan is subject to a number of detailed provisions.

(g) In November 2005, the Company granted a loan of £459 million to PLHL. Interest is calculated at 7% per annum and is payable annually on 31 December. The loan is repayable on demand.

31. Property, plant and equipment

	Land and buildings	Plant and equipment	Total
	£m	£m	£m
Cost or valuation			
At 1 January 2008	35	38	73
Additions	—	1	1
Transfer from asset held for sale (note 41)	12	—	12
Disposals through sale of subsidiaries	(40)	(38)	(78)
Other disposals	(7)	(1)	(8)
At 31 December 2008	—	—	—
Depreciation			
At 1 January 2008	—	34	34
Charge for the year	—	1	1
On disposals through sale of subsidiaries	—	(34)	(34)
On other disposals	—	(1)	(1)
At 31 December 2008	—	—	—
Carrying amount			
At 31 December 2008	—	—	—

	Land and buildings	Plant and equipment	Total
	£m	£m	£m
Cost or valuation			
At 1 January 2007	47	55	102
Additions	—	4	4
Transfer to asset held for sale (note 41)	(12)	—	(12)
Disposals	—	(21)	(21)
At 31 December 2007	35	38	73
Depreciation			
At 1 January 2007	—	47	47
Charge for the year	—	2	2
On disposals	—	(15)	(15)
At 31 December 2007	—	34	34
Carrying amount			
At 31 December 2007	35	4	39

The useful lives of plant and equipment have been taken as follows: motor vehicles 3-4 years, computer equipment 3-4 years, furniture and office equipment 5-10 years.

The valuation of land and buildings is carried out at least every three years as at 31 December by external surveyors in accordance with the Royal Institution of Chartered Surveyors' requirements. The most recent valuation was carried out in December 2008 at open market value and on the basis of the lease agreements.

32. Intangible assets

	Goodwill	Acquired in-force business	Deferred acquisition costs (note 33)	Other	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2008	337	2,872	148	155	3,512
Disposals through sale of subsidiaries	(337)	(2,872)	(148)	(155)	(3,512)
At 31 December 2008	—	—	—	—	—
Amortisation and impairment losses					
At 1 January 2008	128	1,055	69	45	1,297
Amortisation charge for the year	—	168	10	17	195
On disposals through sale of subsidiaries	(128)	(1,223)	(79)	(62)	(1,492)
At 31 December 2008	—	—	—	—	—
Carrying amount					
At 31 December 2008	—	—	—	—	—
Amount recoverable after 12 months	—	—	—	—	—

	Goodwill	Acquired in-force business	Deferred acquisition costs (note 33)	Other	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2007	337	2,872	126	129	3,464
Acquisitions through business combinations	—	—	—	30	30
Other additions	—	—	22	—	22
Disposals	—	—	—	(4)	(4)
At 31 December 2007	337	2,872	148	155	3,512
Amortisation and impairment losses					
At 1 January 2007	128	827	54	16	1,025
Amortisation charge for the year	—	228	15	31	274
On disposals	—	—	—	(2)	(2)
At 31 December 2007	128	1,055	69	45	1,297
Carrying amount					
At 31 December 2007	209	1,817	79	110	2,215
Amount recoverable after 12 months	209	1,616	62	78	1,965

Goodwill is not amortised. Other intangible assets have finite lives. Acquired in-force business and deferred acquisition costs are amortised over periods of up to 50 years on a basis which reflects the anticipated emergence of profits from the underlying business written.

Additions to other intangible assets include £30 million during 2007 in respect of the acquisition of the protection broker consultant business of Abbey National plc (note 43). This is being amortised over 4 years on a straight line basis.

The amortisation charge for the year is included in administrative expenses within the consolidated income statement with the exception of the amortisation of acquired in-force business which is shown as a separate line item within the consolidated income statement. The recoverable amount of acquired in-force business is its value in use. All intangible assets were disposed of as a result of the disposal of the subsidiaries.

Information relating to the recoverable goodwill of the Group's cash generating units as at 31 December 2007 is given below:

Life assurance

The carrying amount of goodwill allocated to the life assurance division was £65 million. The recoverable amount has been determined on the value in use basis, by comparison with the value of the in-force business of the life division, calculated in accordance with European Embedded Value ("EEV") methodology, after deducting the carrying value of the acquired in-force business, less deferred tax.

The carrying amount of goodwill allocated to the management services business was £10 million. The recoverable amount has been determined on the value in use basis, by evaluating the expected cash flows arising from the business in the future. The key assumptions used in estimating these cash flows are fee income, inflation and the discount rate. Fee income is assumed to decline gradually in line with the run-off of policyholder liabilities under the existing management services agreement structure with the life division. The cash flows have been projected for 10 years and have been discounted at 7%.

Asset management

The carrying amount of goodwill allocated to the asset management business was £134 million. The recoverable amount has been determined on the value in use basis, by evaluating the expected cash flows arising from the business in the future. The key assumptions used in estimating these cash flows are movements in funds under management, fee income, inflation and discount rate. The funds under management relating to the policyholder assets of the Group are assumed to decrease in line with the expected run-off of the related policies. Other funds under management are assumed to increase in line with inflation. Fee income and expense inflation have been set with reference to past experience and are consistent with external rates.

The cash flows have been projected for 25 years, reflecting the continuing nature of the underlying funds under management, including those of the policyholder assets of the Group. The cash flows have been discounted at 7%.

33. Deferred acquisition costs

	Insurance contracts	Investment contracts	Total
	£m	£m	£m
At 1 January 2008	42	37	79
Disposals	(22)	(5)	(27)
Amortisation charge	(4)	(6)	(10)
	16	26	42
Disposals through sale of subsidiaries	(16)	(26)	(42)
At 31 December 2008	—	—	—

	Insurance contracts	Investment contracts	Total
	£m	£m	£m
At 1 January 2007	27	45	72
Additions	22	—	22
Amortisation charge	(7)	(8)	(15)
At 31 December 2007	42	37	79

34. Investment property

	2008	2007
	£m	£m
At 1 January	2,410	2,705
Additions	24	49
Improvements	—	1
Disposals through sale of subsidiaries	(1,643)	—
Other disposals	(134)	(49)
Fair value losses	(657)	(296)
At 31 December	—	2,410

Investment property is stated at fair value and is independently valued in accordance with the Royal Institute of Chartered Surveyors' guidelines on the basis of the open market value of such properties.

35. Financial assets

	2008	2007
	£m	£m
Loans and deposits at amortised cost	—	804
Financial assets at fair value through profit or loss		
Held for trading – derivatives	71	297
Designated upon initial recognition	—	45,857
	71	46,958
Amount recoverable after 12 months	71	34,354

36. Stocklending

Prior to the disposal of its subsidiaries the Group lent listed financial assets held in its investment portfolio to other institutions. The Group conducted its stocklending programme only with well-established, reputable institutions in accordance with established market conventions.

The financial assets did not qualify for derecognition as the Group retained all the risks and rewards of the transferred assets except for the voting rights. The carrying amounts of listed financial assets lent out at the reporting date that have not been derecognised are £nil (2007: £7,607 million).

It was the Group's practice to obtain collateral in stocklending transactions, usually in the form of cash or marketable securities. This collateral was held on behalf of the Group and was not recognised in the statement of consolidated financial position. The fair value of financial assets accepted as collateral amounts to £nil (2007: £8,152 million). The Group was not permitted to sell or re-pledge the collateral held in the absence of default.

37. Loans and deposits

	2008	2007
	£m	£m
At 1 January	804	732
Additions	—	726
Repayments	(681)	(654)
	123	804
Disposals through sale of subsidiaries	(123)	—
At 31 December	—	804
Amount due for recovery after 12 months	—	55

Substantially all of the loans and deposits were at variable interest rates. The carrying amounts approximated to fair value at the date of the statement of consolidated financial position.

38. Derivatives

At 31 December 2008, the Company had interest rate swaps comprising a derivative asset of a variable to fixed interest rate swap with a fair value of £71 million (nominal value of £1,130 million) and a derivative liability of a variable to fixed interest rate swap with a fair value of £72 million (nominal value of £1,130 million). No collateral has been pledged to or by the Company.

Set out below is the Group's exposure to derivatives at 31 December 2007.

Prior to the disposal of its life assurance subsidiaries the Group purchased derivative financial instruments in connection with the management of its insurance contracts and investment contracts liabilities, based on the principles of reduction of risk and efficient portfolio management.

Where the Group had entered into collateral arrangements to provide security against the maturity proceeds of derivative financial instruments, which included a legal right of set off and it was intended that settlement would be made on a net basis, the value of the derivatives and the related collateral are presented on a net basis within trade and other payables (note 28) and trade and other receivables as appropriate. For all such arrangements, interest was payable on the amounts owed based on the Sterling Overnight Index Average.

Where collateral had been pledged by the Group and the right of set off was only enforceable on the occurrence of a particular future event then the pledged asset continued to be recognised by the Group. On the same basis, the Group did not recognise collateral pledged by counterparties.

The amount of collateral pledged by and to the Group during 2007 was £162 million and £180 million respectively.

The fair values of derivative financial instruments at the end of 2007, for which the value of collateral arrangements had not been recognised, were as follows:

	2007 Assets	2007 Liabilities
	£m	£m
Options on interest rate swaps	74	—
Stock index futures	2	2
Swaps	221	300
Forward currency instruments	—	1
	297	303

The amount recoverable after one year was £274 million. The amount payable after one year was £300 million.

Hedges against movements in the cost of policy guarantees

The long-term business funds have an economic exposure to costs of guarantees attributable to equity returns, interest rate movements and foreign exchange rate movements.

The following types of guarantees existed on contracts written by the Group's life companies:

- maturity guarantees on conventional with profit ("CWP") policies and Market Value Adjustment ("MVA") free guarantees on unitised with profit ("UWP") policies;
- CWP pensions maturity guarantees with guaranteed annuity options;
- CWP deferred annuity contracts with guaranteed commutation options; and
- guaranteed benefits on non-participating business.

During 2007, the Group closed out the bespoke derivative contracts previously held with Abbey National Treasury Services plc and purchased a series of Over The Counter ("OTC") options.

The various equity options, interest rate swaps, interest rate swap options and exchange traded equity futures were chosen so as to hedge against movements in the cost of policy guarantees attributable to a change in economic conditions.

EQUITY OPTIONS

Equity options were used to hedge against movements in the cost of policyholder guarantees associated with certain with profit contracts as a result of equity market movements.

Forward currency contracts

A small number of forward currency contracts were held for efficient portfolio management purposes.

SWAPS

Fixed interest assets were generally matched to the liabilities they were backing, in order to protect against the impact of interest rate movements on the cost of maturity guarantees and guaranteed annuity options. A bond portfolio benchmark was used to give a reasonable overall duration match with interest rate swaps being used in some funds to hedge residual interest rate risk at key duration points.

Inflation swaps were held to protect against the impact of changes in the rate of inflation on the cost of certain index-linked annuities in payment and maintenance expenses.

Cross-currency swaps were held to protect against currency risk where non-sterling fixed-interest assets were held.

INTEREST RATE SWAP OPTIONS

Interest rate options were used to hedge against movements in the cost of policyholder guarantees associated with certain with profit contracts which have a guaranteed annuity rate applying.

Stock index futures

A small number of stock index futures were held, mainly for efficient portfolio management purposes, though strategic positions may be held in order to reduce the impact of equity movements on the costs of guarantees on CWP business.

EQUITY FUTURES

These were held to hedge against movements in the cost of policyholder guarantees associated with certain with profit contracts as a result of equity market movements.

Maturity of derivatives

The derivative types and range of maturity dates are set out below:

Derivative type	Maturity date range
OTC Options	June 2008 – June 2027
Swaps	June 2008 – June 2047
Options on interest rate swaps	March 2008 – December 2047
Equity futures	Rolled forward every 3 months
Stock index futures	Rolled forward every 3 months
Forward currency contracts	Rolled forward every 3 months

The various derivatives were not individually allocated against policy guarantees, rather the aggregate of all derivatives held were designed to hedge against movements in the aggregate cost of policy guarantees.

The effectiveness of the hedge against movements in the cost of policyholder guarantees was assessed at least twice a year.

Collateral arrangements

Where there was a legal right of set off against the relevant derivative, and because it was intended that settlement would be on a net basis, all collateral creditors were presented on a net basis within trade and other payables (note 28) and collateral debtors forming part of trade and other receivables.

The fair values of derivative financial instruments (the market value on a bid basis) at the end of 2007 were as follows:

	2007					
	Notional amount	**Assets**	**Liabilities**	**Collateral**	**Net collateral debtors**	**Net collateral creditors**
		£m	**£m**	**£m**	**£m**	**£m**
OTC vanilla contracts						
Equity options	1,700	276	—	291	—	(15)
Interest rate swaps	5,084	4	(27)	(24)	4	(3)
Interest rate swaptions	1,750	80	—	86	—	(6)
Equity forward contracts	755	603	—	603	1	(1)
Total	9,289	963	(27)	956	5	(25)

Where transactions were with the same counterparty and the conditions for offset were met, the net asset or liability position is shown in the table above.

The market value was calculated using certain observable market data (the yield curve as at the valuation date). Where market data was not directly observable (for example, the volatility of future interest rates and equity returns) these were derived from observed market prices of similar instruments.

39. Tax assets and liabilities

	2008	2007
	£m	£m
Current tax receivables	—	157
Total tax assets	—	157
Current tax payables	(7)	(130)
Net deferred tax liabilities	(6)	(857)
Total tax liabilities	(13)	(987)

Deferred tax assets comprise:

	2008	2007
	£m	£m
Losses, expenses and deferred acquisition costs carried forward	—	237
Provisions and other timing differences	—	17
Other	—	22
Total deferred tax assets	—	276

Deferred tax liabilities comprise:

	2008	2007
	£m	£m
Acquired in-force business	—	(666)
Unrealised gains on investments	—	(112)
Surplus within the non profit funds	—	(163)
On profit arising from the changes in assumptions used for determining insurance contracts liabilities in accordance with PS 06/14	—	(107)
Other	(6)	(85)
Total deferred tax liabilities	(6)	(1,133)
Net deferred tax liabilities	(6)	(857)

Movements in deferred tax liabilities comprise:

	2008	2007
	£m	£m
At 1 January	(857)	(982)
Amounts credited to the consolidated income statement	212	132
Amounts credited/(charged) to the statement of consolidated comprehensive income	1	(5)
Other adjustments	—	(2)
	(644)	(857)
Disposals of subsidiaries	638	—
At 31 December	(6)	(857)

Deferred tax has been provided on the surpluses within the non profit funds on the assumption that all such surpluses will eventually be distributed to owners.

Deferred tax assets are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable.

Deferred tax assets have not been recognised in respect of tax loss carry forwards of £nil (2007: £578 million) and excess expenses and deferred acquisition costs carried forward of £nil (2007: £867 million) as there is insufficient certainty as to the availability of future profits. In addition, the Group has unrecognised capital tax losses of £nil (2007: £102 million) which can only be offset against capital gains. These have no expiry date.

40. Cash and cash equivalents

	2008	2007
	£m	£m
Bank and cash balances	—	2,845
short-term deposits (including demand and time deposits)	—	2,160
	—	5,005

All deposits were subject to fixed interest rates. The carrying amounts approximated to fair value at the date of the statement of consolidated financial position.

41. Asset held for sale

The asset classified as held for sale comprised the Group's property at Albert Dock, Liverpool. The Group announced the closure of its Liverpool office in June 2006 and the property had largely been vacated and was being marketed as at the end of 2007. It was anticipated that the disposal of the property would be completed during 2008; however, this did not take place and accordingly the property has been reclassified as property, plant and equipment (note 31). The property is included within the life assurance division for segment reporting purposes.

42. Cash flows

(a) Cash flows from operating activities

	2008	2007
	£m	£m
(Loss)/profit for the year before tax	(174)	4
Non-cash movements in (loss)/profit for the year before tax		
Fair value losses/(gains) on:		
Investment property	657	296
Subsidiaries, joint ventures and associates	133	—
Financial assets	4,382	(53)
Depreciation and revaluation of property, plant and equipment	1	2
Amortisation of intangible assets	195	274
Net (increase)/decrease in working capital	(3,149)	1,860
Cash generated from operations	2,045	2,383

(b) Cash flows on acquisition of business/subsidiaries

	2008	2007
	£m	£m
Consideration settled in cash	—	30

43. Acquisition

On 28 September 2007, the Group completed the acquisition of the business and assets of the protection broker consultant business of Abbey National plc. The business and assets acquired comprised approximately 65 brokerages including the marketing, sales and technical information of the business and property, plant and equipment. The acquisition was effected by Pearl Group Management Services Limited, a Group company, for a consideration of £30 million, paid in cash. The consideration was funded from the Group's existing resources. The acquisition costs were not material.

The acquiree's net assets at the date of acquisition were as follows:

	Carrying amounts	Fair value adjustments	Fair values
	£m	£m	£m
Intangible assets	—	30	30
Net identifiable assets and liabilities	—	30	30
Fair value of consideration			
Consideration settled in cash			30
Acquisition costs incurred			—
			30

The profit of the business for the period from the date of acquisition to 31 December 2007 was not material. If the acquisition had taken place with effect from 1 January 2007 the estimated gross premiums written and profit after income taxes would not have been materially different from the amounts reported in the financial statements.

44. Operating leases

Operating lease rentals charged within administrative expenses amounted to £15 million (2007: £6 million). As at 31 December 2008, the Group had commitments under non-cancellable operating leases as set out below:

	2008	2007
	£m	£m
Not later than one year	—	6
Later than one year and no later than five years	—	6
Later than five years	—	4

The principal operating lease commitments included:

A lease relating to Bothwell Street, Glasgow currently occupied by the asset management division. The lease expires in December 2014 but is subject to a break clause at the end of 2012. At either of these times the asset management division can vacate the building without penalty. There is no purchase option within the lease. The rent is based on current market value and is reviewed on a five yearly basis. The current rental figure was set in November 2004.

A lease relating to St. Vincent Street, Glasgow currently occupied by the life assurance division. The lease expires in December 2020. There are no exit clauses in the lease. It is based on current market value and is reviewed twice yearly in each year of the term. The current rental figure was set in August 2006.

As of 31 December 2008, the Company had no operating lease commitments following the disposal of its subsidiary undertakings.

45. Related party transactions

The Group has related party relationships with its pension schemes, the Resolution Foundation, Directors and other members of the Group Executive Committee.

(a) Transactions with key management personnel

Major Group decisions are made by the Board and the Group Executive Committee. Transactions with Directors and with other Group Executive Committee members are as follows:

	2008	2007
	£000	£000
Remuneration including salaries, bonuses and other benefits	6,288	8,179

Pension benefits

	Accrued benefit at 31 December 2008	Accrued benefit at 31 December 2007
	£000	£000
Defined benefit scheme	—	28

	Contributions made in the year 31 December 2008	Contributions made in the year 31 December 2007
	£000	£000
Defined contribution scheme	188	485

	2008	2007
	£000	£000
Compensation for loss of office	1,375	854

Directors and Group Executive Committee members were also eligible to participate in the share option schemes described in note 16.

	Share save options at		Executive share options		LTIP share options	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	No.	No.	No.	No.	No.	No.
Interests in share options	—	29,055	—	—	—	1,648,686

During the year ended 31 December 2008, all share options were crystallised as a result of the acquisition by Impala Holdings Limited. This meant that the key management personnel received a cash benefit of £9,913,000 as settlement of the share options.

(b) Transactions with the Resolution Foundation

The Resolution Foundation was set up by Clive Cowdrey, the former Chairman of the Company. In the period prior to 1 May 2008, the Company entered into the following transactions with the Resolution Foundation:

- the Company charged £9,400 (2007: £24,000) for the sharing of office space and the use of facilities and services provided by the Company; and
- a donation of £nil (2007: £400,000) was made to the foundation representing the fee waived by Clive Cowdery for his services as chairman of the Company.

(c) Transactions with investee entities of Impala Holdings Limited

During the year, the Company entered into an interest rate swap with PGH (LC2) Limited (formerly Hera Investments No. 2 Limited) and PGH (LC1) Limited (formerly Sun Capital Investments No. 2 Limited), investing entities of Impala Holdings Limited. The swap exchanges a variable rate of interest on loan finance of £1,130 million for a fixed rate. At 31 December 2008, the total fair value of this swap was £(72) million. Net interest of £1 million has been charged to the Company on these swaps and this is outstanding as at 31 December 2008.

(d) Transaction with Pearl Assurance plc

During the year, Pearl Assurance plc, a subsidiary undertaking of Pearl Group Holdings (No. 2) Limited, retained its 3.48% holding of the Perpetual Reset Capital Securities. On 25 April 2008, a coupon of £1 million was paid to Pearl Assurance plc.

(e) Transactions with PGL Pension Scheme

During the year, the Group provided investment management services to the Scheme. Fees of £2 million (2007: £2 million) have been charged and £1 million (2007: £1 million) was outstanding at 31 December 2008.

Details of the contributions to the Scheme are provided in note 29.

(f) Transactions with Impala Holdings Limited

On 31 December 2008, the Company disposed of the entire issued share capital of its subsidiary undertakings to Impala Holdings Limited (note 4) for consideration of £2,606 million. The consideration comprised the assumption by Impala Holdings Limited of £764 million of loans and associated accrued interest payable by the Company to other group undertakings with the balance of £1,842 million left outstanding as an interest bearing intra-group loan.

On 1 August 2008, the Company provided a loan to Impala Holdings Limited of £736 million (note 30). Interest of £28 million accrued on this loan during 2008 of which £12 million was capitalised during the year and the balance of £16 million was outstanding at 31 December 2008.

Effective 1 May 2008, the Company entered into an agreement with Impala Holdings Limited under which parties could borrow from or lend to each other as agreed. During 2008, Impala Holdings Limited borrowed £66 million from the Company under this facility and interest of £1 million accrued in the period was outstanding on this facility at 31 December 2008.

(g) Parent Undertaking

Prior to 1 May 2008, the Company did not have a parent undertaking. On 1 May 2008, Impala Holdings Limited became the immediate parent undertaking of the Company and Pearl Group Holdings (No. 2) Limited (formerly Pearl Group Limited) became the ultimate parent undertaking. On 2 September 2009, Phoenix Group Holdings (formerly Pearl Group (formerly Liberty Acquisition (International) Company)) became the ultimate parent undertaking of the Company.

46. Contingent liabilities

The Company has guaranteed the performance by a group undertaking, PLHL, of a guarantee given by PLHL to the Trustees of the PGL Pension Scheme in respect of the obligations and liabilities of the participating employers to make payments to the Scheme. The principal obligations that are subject to the guarantee are cash contributions totalling £52.5 million, which are payable in instalments over the period to June 2012.

47. Events after the balance sheet date

On 25 March 2009, the Company gave notice to the holders of the Perpetual Reset Capital Securities of its decision to defer the coupon payment on the Notes on the next coupon payment date of 25 April 2009. The Company has no present intention to satisfy the deferred coupon payment by operating the alternative coupon satisfaction mechanism.

On 5 January 2010, the Company announced a proposed restructuring of the Notes. The proposed restructuring was not approved by Noteholders and consequently those proposals were not implemented.

On 23 March 2010, the Company gave notice to the holders of the Notes of its decision to defer the coupon payment on the Notes which would otherwise have been due at the next payment date of 25 April 2010. The Company announced that this notice would be withdrawn and the 2010 coupon would be paid in full on 25 April 2010 if certain amending proposals were approved by, amongst others, the Noteholders. These proposals include a reduction of 15% in the face value of the Notes and the payment in full of the deferred 2009 coupon by 31 December 2010. Both proposed coupon payments are to be based on the current nominal value of the Notes, being £500 million. These amending proposals were agreed by the Noteholders on 22 April 2010 and the 2010 coupon paid on 26 April 2010.

48. Risk management policies

The Group is exposed to a number of risks in its business including those arising from underlying assets and liabilities and its capital position. This section summarises these risks and the risk management approaches and methodologies the Group applies. The information given relates to 2007 and the period in 2008 up to the date of disposal of the Company's life assurance business.

48.1. Risk management overview

(a) Risk governance framework

The primary objective of the Group's governance framework is to protect it from events that hinder the sustainable achievement of the Group's performance objectives, including the failure to exploit opportunities. The Directors recognise the critical importance of having efficient and effective risk management systems in place.

The Group has an established risk management function along with clear terms of reference for the Board, its committees and the associated executive management committees. A clear organisation structure with documented, delegated authorities and responsibilities from the Board to executive management committees and senior managers is in place. A Group policy framework is also in place, which sets out the risk appetite of the Group, together with risk management, internal control and business conduct standards for the Group's operating units. Each policy is the responsibility of a member of senior management who is charged with overseeing compliance with the policy throughout the Group.

The Board has approved the Group risk management policies and meets regularly to approve any commercial, regulatory and internal organisational requirements arising from the policies. The policies define:

- the Group's identification of risk and its interpretation;
- required structures to ensure the appropriate quality and diversification of assets in the context of the liabilities;
- alignment of the reinsurance strategy to the corporate goals;
- the Group's approach to ensuring that its customers are treated fairly; and
- reporting requirements.

(b) Regulatory framework

A significant element of the Group's life assurance business comprises policies where the investment risk is borne by policyholders. Risk attributable to policyholders is actively managed, keeping in view their investment objectives and constraints.

The Group's business is subject to regulation by the FSA. The FSA has broad regulatory powers dealing with all aspects of financial services including, among other things, the authority to grant and, in specific circumstances, to vary or cancel permissions to carry out particular activities. The FSA is responsible for ensuring that Group companies treat customers fairly, including the investigation of past marketing and sales practices.

The FSA is also responsible for ensuring that the Group and its individual regulated companies maintain an appropriate level of capital to enable them to meet liabilities arising from reasonably foreseeable extreme events.

The Directors believe each of the regulated businesses within the Group dedicates sufficient resources to its compliance programme; responds to regulatory enquiries in an appropriate way; and takes corrective action when warranted.

(c) Capital management framework

The Group has developed a capital management framework using ICA principles for identifying the risks to which each of its business units and the Group as a whole are exposed and quantifying their impact on capital. The ICA process estimates the level of capital the Group should retain to ensure that there is only an extremely small risk that the Group will be unable to meet its liabilities. The capital required is calculated based on extreme but foreseeable risk events over a one-year timeframe. Although the ICA is an internal process, the FSA may use ICA information in discussing the target capital levels it believes the Group and all of its insurance businesses should have available.

(d) Asset liability management ("ALM") framework

The Group's life assurance division has entered into contracts that transfer insurance or investment risk or both from policyholders to the Group. Investment risks undertaken by the Group are managed by selecting appropriate asset matching strategies. These strategies seek to eliminate or reduce the risks the Group is exposed to but some residual exposures may remain. In some instances, the Group may decide to deviate from close asset matching strategies but will ensure that the risks and rewards of taking such action are appropriate.

The Group has substantial exposure to fixed interest securities, equity and property through its constituent life assurance companies. While the investment risk is often borne by or shared with, policyholders, fluctuations in the fixed income, equity and property markets will directly or indirectly affect the Group's financial results, the embedded value of the life operations and the capital requirements of the life business.

Within the asset management business, income is primarily derived from an *ad valorem* charge on the assets under management. If the value of assets is adversely affected by movements in markets or by performance within the funds this may lead to reduced operating profit within the business of the Group.

The Group manages these positions within an ALM framework that has been developed to ensure long-term investment returns meet obligations under insurance and investment contracts. The principal technique of the Group's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

48.2. Financial and insurance risk management

(a) Financial risk

Transactions in financial instruments may result in the Group assuming financial risks. This includes credit risk, market risk and liquidity risk. Each of these is described below, together with a summary of how the Group manages them:

(i) Credit risk

Credit risk is the risk of loss resulting from the failure of a counterparty to perform its financial obligations or to perform them in a timely fashion. These financial obligations can relate to both on and off balance sheet assets and liabilities.

The Group is exposed to the following main types of credit risk:

- credit risk resulting from investment activities, including investments in fixed interest securities, equities, derivatives, collective investment vehicles, hedge funds and the placing of cash deposits;
- credit risk which results indirectly from activities undertaken in the normal course of business. Such activities include premium payments, outsourcing contracts, reinsurance, exposure from material suppliers and the purchase of derivatives;
- credit risk resulting from investment activities associated with the Group's free resources; and
- credit risk resulting from contingent liabilities arising as a result of new acquisitions.

The Group manages the level of credit risk it accepts through comprehensive divisional credit risk tolerances. A Group credit risk policy sets out the assessment and determination of what constitutes credit risk for the Group. Compliance with the policy is monitored and significant exposures and breaches are reported to the Group risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

Reinsurance is placed with counterparties that have appropriate credit ratings and concentration of risk is avoided, where possible, by following policy guidelines in respect of counterparties' limits that are set each year by the Board of Directors and are subject to regular reviews. At each reporting date, management performs an assessment of the creditworthiness of reinsurers in order to update the reinsurance purchasing strategy and to ascertain suitable allowances for impairment.

The Group sets the maximum amounts that may be advanced to corporate counterparties by reference to their long-term credit ratings.

The credit risk borne by the shareholder on with profit policies is minimal. The bonuses to with profit policyholders are designed to distribute to policyholders a fair share of the return on the assets in the with profit funds together with other elements of the experience of the fund. With profit policies are managed such that bonuses distributed to the policyholder are smoothed by building and dissolving returns over the years. The shareholders of the Group are entitled to receive one-ninth of the cost of bonuses declared for some with profit funds and nil for others. In certain circumstances support to the with profit fund may be provided by the non profit or shareholder funds. The process for exercising discretion in the management of the with profit funds is set out in the principles and practices of financial management ("PPFM") for each with profit fund and is overseen by with profit committees.

The table below provides information regarding the credit risk exposure of the Group at 31 December 2007 by classifying financial and reinsurance assets according to Standard and Poors and Moodys credit ratings of the counterparties:

As at 31 December 2007

	AAA	AA	A	BBB	BB and below	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Loans and deposits............	169	59	409	—	—	63	700
Derivative assets................	—	255	20	—	—	23	298
Fixed income securities	16,641	1,726	4,117	1,327	50	153	24,014
Reinsurance assets							
i. Reinsurers' share of insurance and investment contract liabilities.......................	—	1,246	1,699	147	5	122	3,219
ii. Reinsurance receivables	—	95	13	—	1	8	117
Cash and cash equivalents .	2,320	81	3,212	—	—	472	6,085

(source of credit ratings – Standard & Poors/Moodys)

Assets backing unit linked business have been excluded from these tables as the credit risk on such financial assets is borne by the policyholders. Shareholder credit exposure on unit linked assets is limited to the level of asset manager fee which is dependent on the underlying assets. In certain circumstances the shareholder funds may be used to re-establish unit linked assets in line with regulatory and policyholder expectations.

Credit ratings have not been disclosed in the above table for equities. Whilst the Group is exposed to the impact of credit default on its equity holdings, this risk is not considered significant due to the spread of holdings.

Non-equity based derivatives are included in the credit risk table above and are subject to appropriate collateral arrangements.

Credit risk in relation to fixed income securities and cash and cash equivalents has been assessed on a look-through basis where the exposure to the securities is via collective investments vehicles.

It is also the Group's policy to maintain accurate and consistent internal risk ratings across its asset portfolio. This enables management to focus on the applicable risks and to compare credit exposures across all lines of business, geographical regions and products. The rating system is supported by a variety of financial analytics combined with market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories of assets and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

Concentration of credit risks

Concentration of credit risk might exist where the Group has significant exposure to an individual counterparty or a group of counterparties with similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The Group has most of its counterparty risk within its life and pension business and this is monitored by the counterparty limits contained within the company's investment guidelines and investment management agreements, overlaid by regulatory requirements.

The long-term business the Group writes is not generally exposed to significant concentrations of credit risk due to the restrictions imposed by regulatory requirements and limits set for investments in individual assets and asset classes.

The Group is also exposed to concentration risk with individual reinsurers and service outsourcers. This is due to the nature of the service market and the restricted nature of insurers that have acceptable credit ratings. The Group operates a policy to manage reinsurance and service outsourcer counterparty exposures and the impact from default is reviewed regularly by executive committees and measured though the ICA stress and scenario testing.

The majority of the Group's investment securities are listed and can be easily priced in line with publicly available valuations. The Group has limited exposure to unlisted securities. Where unlisted securities are held their valuation is determined from specialised brokers. Moreover, derivative contracts are priced by a recognised counterparty in that field. The value of any unlisted security held is tracked on management reports and any material variances are reported to the Life Division Asset Liability Committee.

The impact of non-government fixed interest securities and, inter alia the widening of market credit spreads during 2007 are fully reflected in the values shown in these financial statements. Similarly, the value of derivatives that the Group holds takes into account fully the changes in swap spreads. The Group does not have any holdings of credit derivatives, such as Collateralised Debt Obligations, or any other assets for which a valuation cannot be established.

Some of the Group's commercial property investments are held through a unit trust managed by Ignis Asset Management Limited. This unit trust has the power to restrict and or suspend withdrawals, which would, in turn, affect liquidity. To date, the unit trust has continued to process both investments and realisations in a normal manner and has not imposed any restrictions or delays.

The Group's life assurance division throughout the year had exposure to significant amounts of short-term money market instruments. As a direct result of the credit crisis in the second half of 2007, two of these assets defaulted on maturity. The profit for the year before income taxes reflects an estimated £10 million write-down in the value of those investments as a result of the defaults. The Company has no other material assets which have been impaired or are past due in 2007.

The amount disclosed in the statement of consolidated financial position in respect of financial assets, excluding those that back unit linked liabilities, represents the Group's maximum exposure to credit risk.

Collateral

The credit risk of the Group is mitigated, in certain circumstances, by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for securities lending and to provide security against the maturity proceeds of derivative financial instruments. Management monitors the market value of the collateral received, requests additional collateral when needed and performs an impairment valuation when impairment indicators exist and the asset is not fully secured.

Further detail on collateral is given in notes 36 and 38.

(ii) Liquidity risk

Liquidity risk is defined as the failure of the Group to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. The Group has exposure to liquidity risk as a result of servicing its external debt and equity investors, and the requirements of its divisions. The Group's divisions have exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements.

The Group's Board has defined a number of governance objectives and principles and the liquidity risk frameworks of each division are designed to ensure that:

- liquidity risk is managed in a manner consistent with the subsidiary Board's strategic objectives, risk appetite and PPFM;
- the quality of profits are appropriately managed and the reputation of the Group is safeguarded; and
- appropriate information on liquidity risk is available to those making decisions.

The Group's policy is to maintain sufficient liquid assets of suitable credit quality at all times and, where appropriate, to have access to borrowings so as to be able to meet all foreseeable current liabilities as they fall due in a cost-effective manner. Forecasts are prepared regularly to predict required liquidity levels over both the short and medium term allowing management to appropriately respond to changes in circumstances.

The table below summarises the maturity profile of the financial liabilities and insurance contract liabilities of the Group. The basis of preparation is such that investment contracts and insurance contracts are on a discounted basis consistent with the statement of consolidated financial position. All remaining financial liabilities are shown on an undiscounted cash basis. Repayments which are subject to notice are treated as if notice were to be given immediately.

The maturity profile of the insurance liabilities is based on the estimated timing, of the amounts recognised in the statement of consolidated financial position.

As at 31 December 2007

	Up to 1 year	**1-5 years**	**Greater than 5 years**	**Total**
	£m	**£m**	**£m**	**£m**
Insurance liabilities	4,552	13,423	16,579	34,554
Investment contracts with DPF[1]	8,614	—	—	8,614
Investment contracts without DPF[1]	8,672	—	—	8,672
Borrowings	127	120	209	456
Deposits received from reinsurers	26	83	358	467
Derivative financial liabilities	3	15	285	303
Net asset value attributable to unit holders	577	—	—	577
Other payables[2]	1,109	—	20	1,129

1 *investment contract policyholders have the option to terminate or transfer their contracts at any time and to receive the surrender or transfer value of their policies. Although these liabilities are payable on demand, the Group does not expect all these amounts to be paid out within one year of the reporting date.*

2 *Other payables include reinsurance payables, payables related to direct insurance contracts, current tax and trade and other payables.*

(iii) Market risk

Market risk is the risk of changes in the fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Group has exposure to market risk as a result of:

- the mismatch between liability profiles and the related asset investment portfolios;
- the investment of 'free resources' including shareholder reserves yet to be distributed, free resources within the with profit funds and assets held to meet regulatory capital and solvency requirements;
- the asset management and investment activities undertaken by the asset management business under the authorisation of investment management agreements it has received; and
- the investment activities undertaken in respect of the asset management business' own products, such as its unitised funds, which are defined in the relevant fund particulars.

The Group structures levels of market risk it accepts through a Group market risk policy that determines: the constituents of market risk for the Group; the basis used to fair value financial assets and liabilities; the asset allocation and portfolio limit structure; diversification from benchmarks by type of instrument and geographical area; the net exposure limits by each counterparty or group of counterparties, geographical and industry segments; control over hedging activities; reporting of market risk exposures and activities; monitoring of compliance with market risk policy and review of market risk policy for pertinence to the changing environment. All operations comply with regulatory requirements relating to the taking of market risk.

Currency risk

The Group's principal transactions are carried out in pounds sterling and therefore its exchange risk is limited principally to foreign operations.

The Group's financial assets are primarily denominated in the same currencies as its insurance and investment liabilities. Thus, the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled and, indirectly, from the earnings of UK companies arising abroad.

Within the life operations with profit funds have an exposure to overseas assets which is not driven by liability considerations. The purpose of this exposure is to reduce overall risk whilst maximising returns by diversification. This exposure is limited and managed within the financial policy approved by the ALM Committee and the Board.

The Group's foreign operations (taken to be those denominated in non-sterling) generally invest in assets in the same currency denomination as their liabilities, so foreign currency mismatch risk between assets and liabilities is largely mitigated. Consequently, the foreign currency risk from the foreign operations mainly arises when the assets and liabilities denominated in a foreign currency are translated into sterling.

Interest rate risk

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Group's approach to interest rate risk is to manage it by maintaining an appropriate mix of fixed and variable rate instruments including derivatives. The policy also requires it to manage the maturity profile of these assets consistent with the liabilities to policyholders.

The following table summarises the expected pre-tax income from the assets assuming assets are held to redemption and deductions in respect of policyholder and other net liabilities of the non profit funds of the life divisions as at 31 December 2007 (excluding contractual liabilities met from the unit linked funds).

Summary by period 31 December 2007

	0-5 years	5-10 years	10-15 years	15-20 years	20-25 years	25-40 years
	£m	£m	£m	£m	£m	£m
Assets	1,979	2,326	1,541	1,407	1,026	2,104
Liabilities	(1,127)	(1,393)	(1,425)	(1,268)	(1,007)	(1,860)
Assets less liabilities	852	933	116	139	19	244

The above tabular disclosure relates only to non profit and non linked funds. With profit business and non profit business within with profit funds are exposed to interest rate risk as guaranteed liabilities are valued relative to market interest rates and investments include fixed interest stocks and derivatives. The profit or loss arising from mismatches between such assets and liabilities is largely or completely offset by increased or reduced discretionary policyholder benefits.

Price risk

The Group's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices other than from interest rate and currency fluctuations. This is due to factors specific to individual instruments, their issuers or factors affecting all instruments traded in the market. Accordingly, the Group limits the exposure to any one counterparty in its investment portfolios as well as the relevant foreign markets (refer to credit and currency exposure disclosures for concentration risks impacting price risks).

The portfolio of marketable equity securities, and property investments, which is carried on the statement of consolidated financial position at fair value, has exposure to price risk. The Group's objective in holding these assets is to earn higher long-term returns by investing in a diverse portfolio of high quality equities and properties. Portfolio characteristics are analysed regularly and price risks are actively managed in a number of dimensions. The Group's holdings are diversified across industries, and concentrations in any one company or industry are limited.

Equity and property price risk is primarily undertaken in respect of assets held in with profit or unit linked funds. For unit linked funds this risk is borne by policyholders and asset movements directly impact unit prices and hence policy values. For with profit funds policyholders' future bonuses will be impacted by the investment returns achieved and hence the price risk. The impact on owners' of with profit fund bonuses is covered under the insurance risk section below. In addition some equity investments are held in respect of owners' funds.

At 31 December 2007, traded equity securities of £10,275 million and £2,410 million of property assets were held.

There is also an exposure to spread changes affecting the prices of corporate bonds and derivatives. This exposure applies to with profit funds, unit linked funds, non profit funds (where risks and rewards fall wholly to shareholders) and in shareholders' funds.

The Group continues to hold derivatives within the with profit funds to hedge various guarantees attaching to certain with profit policies. Further information can be found in note 38.

(b) Insurance risk

Long-term insurance risk

Insurance risk refers to the risk that the frequency or severity of insured events may be worse than expected and includes expense risk. The Group's life assurance division contracts include the following sources of insurance risk:

- mortality – higher than expected number of death claims on assurance products and occurrence of one or more large claims;
- longevity – faster than expected improvements in life expectancy on immediate and deferred annuity products;
- morbidity – higher than expected number of serious illness claims or more sickness claims which last longer on income protection policies;
- expenses – policies cost more to administer than expected;
- lapses – the numbers of policies terminating early is different to that expected in a way which increases expected claims costs or expenses or reduces future profits; and
- options – unanticipated changes in policyholder option exercise rates giving rise to increased claims costs.

Risk management objectives and policies for mitigating insurance risk

The Group manages insurance risk within underwriting and pricing limits and by the monitoring of emerging issues.

The Group uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, external data comparisons, sensitivity analyses, scenario analyses and stress testing.

The profitability of the run-off of the closed long-term insurance businesses within the Group depends to a significant extent on the values of claims paid in the future relative to the assets accumulated to the date of claim. Typically, over the lifetime of a contract, premiums and investment returns exceed claim costs in the early years and it is necessary to set aside these amounts to meet future obligations. The amount of such future obligations is assessed on actuarial principles by reference to assumptions about the development of financial and insurance risks.

New business written in the open long-term insurance businesses within the Group is predominantly protection but also encompasses some unit linked investment business. The success of new protection business depends on setting the premiums to be paid by the policyholder at a level to meet future benefits payable and expenses incurred while generating a profit in return for risk borne and capital provided by the shareholder. For unit linked investment business the charges taken must be sufficient to meet expenses and profit. The premiums and charges are assessed on actuarial principles by reference to assumptions about the development of financial and insurance risks.

It is therefore necessary for the Board of Directors of the life division to make decisions, based on actuarial advice, which ensure an appropriate accumulation of assets relative to liabilities. These decisions include investment policy, bonus policy and, where discretion exists, the level of payments on early termination. While the Boards of Directors of the companies which hold the life business seek to ensure that such decisions are consistent with their regulatory obligations to treat customers fairly, there is a risk that policyholders, regulators or consumer groups may argue that policyholders' interests or reasonable expectations have been adversely affected by such decisions.

Assumptions

The Group monitors the actual claims, persistency and expense experience against the assumptions used and refines the assumptions for the future assessment of liabilities. Experience may vary from estimates, the more so the further into the future it is projected. The life assurance companies evaluate their liabilities at least annually.

Changes in assumptions may also lead to changes in the level of capital required. To the extent that actual experience is less favourable than the underlying assumptions, or it is necessary to increase provisions due to more onerous assumptions, the amount of additional capital required (and therefore the amount of capital which can be released from the businesses) and the ability of the Group to manage its businesses in an efficient manner may be materially adversely affected.

New business premiums are set using assumptions regarding future experience which are generated with reference to the Group's own experience as well as that of the industry as a whole. Writing new business can be capital intensive and volumes are monitored in conjunction with capital available including that released from existing business.

Underwriting and claims management strategy

Closed long-term insurance businesses within the Group accept new business where they are contractually obliged to do so and consequently underwriting has been considered in the initial contract development and in subsequent monitoring.

Open long-term insurance businesses within the Group actively sell new business, the majority of which is protection products with features set out in the product section below. Underwriting of lives accepted takes place in line with set criteria and a large proportion of the insurance risk is mitigated through the use of reinsurance.

The Group maintains clear policies and procedures in relation to the management and payment of claims including the presentation of suitable reports and certificates to support claims, appropriate payment authorisation limits and regular monitoring of the level of claims received and paid across major product groups.

Reinsurance and other risk reduction strategies

Reinsurance is a mechanism by which the Group transfers away excess risk, especially the risk of very large single death or sickness claims. The Group's strategy is to maintain in force all material reinsurance contracts. New contracts are considered where the risk reduction is justified by the terms.

Guarantees and options

Most life insurance policies contain an element of guarantee and many contain options. These guarantees vary considerably in both quantum and likelihood of being applied. The guarantees and options for material product lines are set out under the different product sections below.

(c) Managing product risk

The following sections give an assessment of the risks associated with the Group's main life insurance products and the ways in which the Group manages those risks.

(i) Protection products

Product features

These contracts are typically secured by the payment of a regular premium payable for a period of years providing benefits payable on certain events occurring within the period. The benefits may be a single lump sum or a series of payments and may be payable on death, serious illness or sickness.

Profits and/or losses mainly arise from claims experience differing from that expected.

The table below indicates the split of protection liabilities at 31 December 2007, between those written in with profit funds and those directly influencing shareholders' results in non profit funds and also indicates the liabilities and corresponding reinsurance assets:

31 December 2007	Liability	Reinsurance asset
	£m	£m
With profit funds	129	115
Non profit funds	257	305

Management of product risks

The main risk associated with this product is the claims experience and this risk is managed through the initial pricing of the policy, the use of reinsurance and a clear process for administering claims.

(ii) Immediate annuities

Product features

This type of annuity is purchased with a single premium at the outset, and is paid to the policyholder for the remainder of their lifetime. Payments may also continue for the benefit of a surviving spouse or partner after the annuitant's death. Annuities may be level, or escalate at a fixed rate, or may escalate in line with a price index and may be payable for a minimum period irrespective of whether the policyholder remains alive.

Profits and/or losses arise mainly when longevity and investment experience vary from that expected.

New annuity contracts are underwritten but only in conjunction with deferred annuity policies which reach the point of retirement.

The table below indicates the split of immediate annuity liabilities at 31 December 2007, between those written in with profit funds and those directly influencing shareholders' results in non profit funds and also indicates the liabilities and corresponding reinsurance assets:

31 December 2007	Liability	Reinsurance asset
	£m	£m
With profit funds	2,124	714
Non profit funds	5,938	2,400

Management of product risks

The main risks associated with this product are longevity and investment risks. Longevity risk arises as the annuities are paid for the lifetime of the policyholder, and is managed through the initial pricing of the annuity and through reinsurance (appropriately collateralised) or transfer of existing liabilities. Annuities may also be a partial 'natural hedge' against losses incurred in protection business in the event of increased mortality (and vice versa).

The pricing assumption for mortality risk is based on both historic internal information and externally generated information on mortality experience, including allowances for future mortality improvements. Pricing will also include a contingency margin for adverse deviations in assumptions.

Investment risk depends on the extent to which the annuity payments under the contracts have been matched by suitable assets which is managed by the ALM Committee. Asset/liability modelling is used to monitor this position on a regular basis. Details of default risk have been covered under the credit risk section.

(iii) Deferred annuities

Product features

Deferred annuity policies are written to provide either a cash benefit at retirement, which the policyholder can use to buy an annuity on the terms then applicable, or an annuity payable from retirement. The policies would contain an element of guarantee expressed in the form that the contract is written in i.e. cash or annuity. Deferred annuity policies written to provide a cash benefit may also contain an option to convert the cash benefit to an annuity benefit on guaranteed terms; these are known as Guaranteed Annuity Rate ("GAR") policies. Deferred annuity policies written to provide an annuity benefit may also contain an option to convert the annuity benefit into cash benefits on guaranteed terms; these are known as Guaranteed Cash Option ("GCO") policies.

The table below indicates the split of liabilities into these policy types and whether the policy is held within the with profit or non profit funds:

	Policies with cash benefits		Policies with annuity benefits	
31 December 2007	**Non-GAR**	**GAR**	**Non-GCO**	**GCO**
	£m	**£m**	**£m**	**£m**
With profit funds				
Basic policy liability	3,537	3,452	1,551	1,416
Option provisions	—	1,169	—	84
Non profit funds				
Basic policy liability	4,366	78	557	37
Option provisions	—	28	—	3

In relation to deferred annuities there are no material reinsurance assets other than £382 million for the ex Alba Life fund within PLL.

Management of product risks

During the last decade, interest rates and inflation have fallen and life expectancy has increased more rapidly than originally anticipated. Deferred annuity policies which are written to provide annuity benefits are managed in a similar manner to immediate annuities and are exposed to the same risks.

The guaranteed terms on GAR policies are more favourable than the annuity rates currently available in the market for cash benefits. The guaranteed terms on GCO policies are not currently valuable.

The option provisions on GAR policies are particularly sensitive to downward movements in interest rates, increasing life expectancy and the proportion of customers exercising their option. Adverse movements in these factors could lead to a requirement to increase reserves which could adversely impact profit and potentially require additional capital. In order to address the interest rate risk (but not the risk of increasing life expectancy or changing customer behaviour with regard to exercise of the option), insurance subsidiaries within the Group have purchased derivatives that provide protection against an increase in liabilities and have thus reduced the sensitivity of profit to movements in interest rates.

The Group seeks to manage this risk in accordance with both the terms of the issued policies and the interests of customers, and has obtained external advice supporting the manner in which it operates the long-term funds in this respect.

(iv) Insurance contracts with DPF

Product features

The Group operate a number of with profit funds in the UK, in which the with profit policyholders benefit from a discretionary annual bonus (guaranteed once added in most cases) and a discretionary final bonus. Non profit business is also written in some of the with profit funds and some of the funds may include immediate annuities and deferred annuities with GARs. The investment strategy of each fund differs, but is broadly to invest in a mixture of fixed interest investments and shares and/or property in such proportions as is appropriate to the investment risk exposure of the fund and its capital resources.

Management of product risks

The Group has significant discretion regarding investment policy, bonus policy and early termination values. The process for exercising discretion in the management of the with profit funds is set out in the PPFM for each with profit fund and is overseen by with profit committees. Advice is also taken from the with profit actuary of each company which has a with profit fund. Compliance with the PPFM is reviewed annually and reported to the FSA and policyholders.

The bonuses are designed to distribute to policyholders a fair share of the return on the assets in the with profit funds together with other elements of the experience of the fund. The shareholders of the Group are entitled to receive one-ninth of the cost of bonuses declared for some funds and nil for others.

48.3. Operational risks

Operational risk is the risk of loss, or, inter alia, adverse consequences for the Group's business, arising from system failure, human error, fraud or external events.

When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Group cannot expect to eliminate all operational risks, but by initiating and following a rigorous control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Business risks such as changes in environment, technology and the industry are monitored through the Group's strategic planning and budgeting process.

The assessment of operational risk exposures is performed on a qualitative basis using a combination of impact and likelihood, and on a quantitative basis using objective and verifiable measures. Limits for exposure are set using both quantitative limits, e.g. financial impact, and also qualitative statements of principle that articulate the event, or effect, that needs to be limited.

49. Group entities

The principal subsidiary undertakings of the Group whose results or financial position affected the amounts shown in the consolidated financial statements are listed below. The Company and the principal subsidiary undertakings of the Group are incorporated, and have their principal place of operation in the UK except where otherwise stated. All subsidiary undertakings have been included in the consolidated financial statements.

As stated in note 4, all of the Company's subsidiary undertakings were disposed of during the year.

Subsidiary	**Principal activity**	**% of equity and votes held**
Phoenix & London Assurance Limited	Life assurance	100
Phoenix Life Assurance Limited	Life assurance	100
Phoenix Life Limited	Life assurance	100
Phoenix Pensions Limited	Life assurance	100
BA (GI) Limited	General insurance	100
PA (GI) Limited	General insurance	100
Ignis Asset Management Limited (formerly Resolution Asset Management Limited)*	Holding company	100
Ignis Fund Managers Limited (formerly Resolution Fund Managers Limited)	Unit trust management	100
Ignis Investment Services Limited (formerly Resolution Investment Services Limited)	Asset management	100
Pearl Life Holdings Limited (formerly Resolution Life Limited)*	Holding company	100
Pearl Group Management Services Limited (formerly Resolution Management Services Limited)*	Management services	100
PGMS (Glasgow) Limited (previously RMS (Glasgow) Limited)	Management services	100
PGMS (Ireland) Holdings Limited (formerly RMS (Ireland) Holdings Limited) (incorporated in the Republic of Ireland)	Holding company	100
Scottish Mutual Assurance Limited	Life assurance	100
Scottish Mutual International Limited (incorporated in the Republic of Ireland)	Life assurance	100
Scottish Provident International Life Assurance Limited (incorporated in the Isle of Man)	Life assurance	100
Scottish Provident Limited	Life assurance	100
UK Commercial Property Trust Limited (incorporated in Guernsey)	Property investment	76

* Directly held by the Company prior to disposal.

There are no non-equity shares held in the principal subsidiary undertakings.

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