



M&G plc

(incorporated in England and Wales under the Companies Act 2006 with registered number 11444019)

£10,000,000,000 Medium Term Note Programme

Under the £10,000,000,000 Medium Term Note Programme (the "Programme"), M&G plc (the "Issuer" or "M&G"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the "Notes"). Notes may be issued as senior obligations ("Senior Notes") or as dated or undated subordinated obligations with terms qualifying as Tier 2 Capital (as defined herein) (any such dated subordinated obligations "Dated Notes", any such undated subordinated obligations, "Undated Notes" and Dated Notes and Undated Notes together, "Tier 2 Notes"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed £10,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase at any time.

This Prospectus has been approved as a base prospectus by the Financial Conduct Authority (the "FCA"), as competent authority under Regulation (EU) 2017/1129 (the "Prospectus Regulation"). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Approval by the FCA should not be considered as an endorsement of the Issuer or of the quality of the Notes that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes.

Application has been made to the FCA for Notes issued under the Programme described in this Prospectus during the period of twelve months from the date of this Prospectus to be admitted to the official list of the FCA (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the Main Market of the London Stock Exchange (the "Market"). The Market is a regulated market for the purposes of European Council Directive 2014/65/EU (as amended, "MiFID II"). References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to such Notes will be set out in the applicable Final Terms (the "Final Terms") which, with respect to Notes to be listed, will be delivered to the FCA and to the London Stock Exchange. Final Terms in respect of any issuance of Notes under the Programme will be published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

The Issuer has a long-term debt rating of A2 by Moody's Investors Service Ltd ("Moody's"), A- by S&P Global Ratings Europe Limited ("S&P") and A+ by Fitch Ratings Limited ("Fitch"). The Issuer has a short-term debt rating of A2 by S&P and F1 by Fitch. Each of Moody's, S&P and Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended, the "CRA Regulation"). For information regarding the ratings of Notes issued under the Programme, please see page 10 below.

Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, its rating will not necessarily be the same as the rating assigned to the Programme by the relevant rating agency. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Where a Series of Notes is rated, its rating will be specified in the applicable Final Terms.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or the securities laws of any state of the United States and the Notes may not be offered, sold or delivered in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act and applicable state securities laws is available. Accordingly, the Notes are being offered and sold: (i) in the United States only to persons reasonably believed to be "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act ("QIBs") in reliance on the exemption from registration provided by Rule 144A; and (ii) to certain persons outside the United States who are not U.S. persons in accordance with Regulation S under the Securities Act. See "Provisions relating to the Notes while in Global Form" for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer, see "Subscription and Sale".

Prospective investors are advised to exercise caution in relation to any offer pursuant to this Prospectus and, if in doubt about the contents of this Prospectus or the applicable Final Terms, obtain independent professional advice.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "Risk Factors" on page 20.

Arranger for the Programme

Barclays

Dealers

Barclays
Goldman Sachs International

Citigroup

Deutsche Bank
NatWest Markets

IMPORTANT INFORMATION

This Prospectus constitutes a base prospectus for the purposes of Article 8 of the Prospectus Regulation.

This Prospectus (as supplemented as at the relevant time, if applicable) is valid for 12 months from its date in relation to Notes which are to be admitted to trading on a regulated market in the European Economic Area (the “EEA”) and/or offered to the public in the EEA other than in circumstances where an exemption is available under Article 1(4) and/or 3(2) of the Prospectus Regulation. The Issuer will, in the event of any significant new factor, material mistake or material inaccuracy relating to the information included in this Prospectus which may affect the assessment of any Notes, prepare a supplement to this Prospectus or publish a new prospectus for use in connection with any subsequent issue of Notes in compliance with section 87G of the FSMA. The obligation to supplement this Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Prospectus is no longer valid.

The Issuer accepts responsibility for the information contained in this Prospectus and the Final Terms relating to any Series of Notes. To the best of the knowledge of the Issuer, the information contained in this Prospectus is in accordance with the facts and the Prospectus does not omit anything likely to affect the import of such information.

This Prospectus should be read and construed with any amendment or supplement hereto and with any documents (or sections of documents) incorporated herein by reference (see “*Documents Incorporated by Reference*” below). Further, in relation to any Series of Notes, this Prospectus should be read and construed together with the applicable Final Terms. No person has been authorised by the Issuer, any Dealer or the Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, any Dealer or the Trustee.

No representation or warranty is made or implied by the Dealers or the Trustee or any of their respective affiliates, and neither the Dealers nor the Trustee nor any of their respective affiliates makes any representation or warranty or accepts any responsibility, as to the accuracy or completeness of the information contained in this Prospectus or as to any act or omission of the Issuer or any other person in connection with the issue and offering of the Notes. Neither the delivery of this Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Prospectus is accurate subsequent to the date hereof or that there has been no adverse change in the financial situation of the Issuer since the date hereof or, if later, the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the

meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder.

NO INCORPORATION OF WEBSITES

Other than in relation to the documents which are deemed to be incorporated in this Prospectus by reference, the information on the websites to which this Prospectus refers does not form part of this Prospectus and has not been scrutinised or approved by the FCA.

IMPORTANT – EEA RETAIL INVESTORS – If the Final Terms in respect of any Notes includes a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by Regulation (EU) No. 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MIFID PRODUCT GOVERNANCE/TARGET MARKET – The applicable Final Terms in respect of any Notes will include a legend entitled “MiFID II product governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the “MiFID Product Governance Rules”), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE, AS MODIFIED OR AMENDED FROM TIME TO TIME (THE “SFA”) – Unless otherwise stated in the applicable Final Terms in respect of any Notes, all Notes issued or to be issued under the Programme shall be “prescribed capital market products” (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in the Monetary Authority of Singapore (the “MAS”) Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

BENCHMARKS REGULATION

Interest and/or other amounts payable under the Notes may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011 (the “Benchmarks Regulation”). If any such reference rate does constitute such a benchmark, the applicable Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (“ESMA”) pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmarks Regulation. Transitional provisions in the Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the applicable Final Terms. The registration status of any administrator under the Benchmarks Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the applicable Final Terms to reflect any change in the registration status of the administrator.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS PROSPECTUS AND OFFERS OF NOTES GENERALLY

The distribution of this Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus or any Final Terms come are required by the Issuer, the Dealers and the Trustee to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Prospectus or any Final Terms and other offering material relating to the Notes, see “*Subscription and Sale*”. In particular, this Prospectus has been prepared on the basis that any offer of Notes in any Member State of the EEA will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in a Member State of Notes which are the subject of an offering contemplated in this Prospectus as completed by Final Terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer. In addition, the Notes have not been and will not be registered under the Securities Act or the securities laws of any state in the United States and may include Notes in bearer form which are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. This Prospectus has not been submitted for clearance to the *Autorité des marchés financiers* in France.

The Notes may not be a suitable investment for all investors. Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (a) has sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, or where the currency for principal or interest payments is different from the potential investor's currency;
- (d) understands thoroughly the terms of the relevant Notes and is familiar with the behaviour of financial markets; and
- (e) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) Notes are legal investments for it; (ii) Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Neither this Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Dealers, the Trustee or any of them that any recipient of this Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

U.S. INFORMATION

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION OR ANY OTHER SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY IN THE UNITED STATES, NOR HAVE ANY OF THE FOREGOING AUTHORITIES APPROVED THIS PROSPECTUS OR CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THE INFORMATION CONTAINED IN THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

This Prospectus may be distributed on a confidential basis in the United States to QIBs for informational use solely in connection with the consideration of the purchase of the Notes of the Issuer being offered hereby. Its use for any other purpose in the United States is not authorised. This Prospectus may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Registered Notes may be offered or sold within the United States only to QIBs in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act ("Rule 144A").

Each purchaser or holder of Notes represented by a Rule 144A Global Note (as defined below) or any Notes issued in registered form in exchange or substitution therefor (together, "Legended Notes") will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Subscription and Sale*". Unless otherwise stated, terms used in this paragraph have the meanings given to them in "Provisions relating to the Notes while in Global Form".

Each Tranche of Notes in registered form offered and sold in reliance on Regulation S under the Securities Act ("Regulation S"), which will be sold to non-U.S. persons outside the United States, will be represented by a global Note in registered form (a "Regulation S Global Note") which will be deposited with a common depositary or common safekeeper, as the case may be, for Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream, Luxembourg"), and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg or in the name of a nominee of the common safekeeper, as specified in the applicable Final Terms.

Each Tranche of Notes in registered form offered and sold to QIBs will be represented by a global Note in registered form (a "Rule 144A Global Note" and, together with a Regulation S Global Note, the "Registered Global Notes") which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("DTC").

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are "restricted securities" within the meaning of the Securities Act, the Issuer has undertaken in the Trust Deed dated 20 December 2019 (as amended, restated, supplemented or otherwise modified from time to time, the "Trust Deed") between the Issuer and the Trustee, to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by it, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, (the "Exchange Act") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. The Issuer is currently not a reporting company under the Exchange Act.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a company incorporated under the laws of England and Wales. Substantially all of the assets of the Group are located in the United Kingdom. None of the Directors or officers is a citizen or resident of the United States. As a result, it may not be possible for holders of Notes ("Noteholders") to effect service of process within the United States upon the Issuer or such persons or to enforce outside the United States judgments obtained against the Issuer or such persons in U.S. courts, including, without limitation, judgments based upon the civil liability

provisions of the U.S. securities laws or the laws of any state or territory within the United States. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in the United Kingdom. Noteholders may also have difficulties bringing original actions in courts outside the United States, to enforce liabilities based upon U.S. securities laws or the laws of any state or territory within the United States.

FINANCIAL INFORMATION

Recipients of this Prospectus should consult their own professional advisers to gain an understanding of the financial information contained in this Prospectus. An overview of the basis for presentation of financial information in this Prospectus is set out below.

Presentation of financial information

Unless the context requires otherwise, references in this Prospectus references to the “Group” are to the Issuer and its subsidiaries. All financial information relating to the Group in this Prospectus, including the historical financial information of the Group set out in Schedule I (the “Historical Financial Information”), is stated on a combined basis for the Issuer and its subsidiaries from time to time excluding Prudential Hong Kong Limited, Prudential General Insurance Hong Kong Limited and Prudential Vietnam Finance Company Limited (the “Excluded Subsidiaries”) for the entirety of the years ended 31 December 2016, 2017 and 2018 and the half years ended 30 June 2018 and 2019.

Unless otherwise stated, the combined financial information in this Prospectus has been prepared in accordance with the requirements of the Prospectus Regulation and the basis of preparation included in Note 1, “Basis of preparation and significant accounting policies in the Group’s historical financial information” in the Historical Financial Information. The basis of preparation describes the extent to which the Historical Financial Information has been prepared in accordance with the International Financial Reporting Standards (“IFRS”) and the departures from IFRS.

IFRS does not provide for the preparation of combined financial information, and, accordingly, in preparing the Historical Financial Information certain accounting conventions commonly used for the preparation of financial information for inclusion in investment circulars (as described in the Annexure to SIR 2000 “Standards for Investment Reporting applicable to public reporting engagements on historical financial information” issued by the UK Auditing Practices Board) have been applied. For more information on the departures from IFRS, see sections 1.2(C) to (F) in Note 1, “Basis of preparation and significant accounting policies in the Group’s historical financial information” in the Historical Financial Information. As a result of the departures from IFRS, the combined financial information is not fully IFRS compliant and the Historical Financial Information does not constitute an IFRS 1 compliant set of financial statements. Pursuant to section 435 of the Companies Act 2006 of the UK (as amended, the “Companies Act”), the Historical Financial Information does not constitute the Issuer’s statutory accounts. The significant IFRS accounting policies applied in the combined financial information are applied consistently in this Prospectus.

The financial information presented in this Prospectus has been prepared for the Group, excluding the Excluded Subsidiaries. On 2 July 2018, Voyager Dallas Holding Company Limited, as the Issuer was known at the time, was incorporated as a subsidiary of Prudential plc. Voyager Dallas Holding Company Limited changed its name to M&G Prudential Limited on 3 July 2018. On 23

November 2018, the Issuer issued share capital to Prudential plc in consideration for the acquisition of PAC, M&G Group Limited, Prudential Financial Services Limited and Prudential Property Services Limited. On 24 July 2019, the Issuer was re-registered as a public limited company and changed its name to M&G Prudential plc. On 16 September 2019, the Issuer changed its name to M&G plc. On 21 October 2019, the demerger of the Issuer and Prudential plc became effective (the “Demerger”). Prior to the incorporation of the Issuer, the business now carried out by the Group was not carried out by a separate legal entity or a separate group of entities.

Unless otherwise stated in this Prospectus, the combined financial information in relation to the Group referred to in this Prospectus has been extracted without material adjustment from the Historical Financial Information or has been extracted from those of the Group’s accounting records and its financial reporting and management systems that have been used to prepare that combined financial information. Investors should ensure that they read the whole of this Prospectus and should not only rely on the key information or information summarised within it.

Unless otherwise indicated, none of the other financial information relating to the Group or any operating data or key performance indicators relating to the Group have been reported on or audited.

Financial year ended 31 December 2018

This Prospectus incorporates two sets of financial information covering the year ended 31 December 2018, which have been prepared on different bases and with different perimeters (see “Documents Incorporated by Reference” and the Historical Financial Information set out in Schedule 1 below). An overview of each is as follows:

- **2018 Annual Report** - The 2018 Annual Report (as defined below) includes the standalone financial statements of the Issuer for the period 2 July 2018 (the date of incorporation of the Issuer) to 31 December 2018 (the “2018 Financial Statements”). The 2018 Financial Statements present the state of the Issuer’s affairs as at 31 December 2018 and of its profit for the period then ended, were prepared in accordance with UK accounting standards, including Financial Reporting Standard 101 Reduced Disclosure Framework, and were audited by KPMG LLP in accordance with International Standards on Auditing (UK) and applicable law. The 2018 Financial Statements are individual financial statements as the Issuer was, as at 31 December 2018, exempt from preparing group financial statements under section 400 of the Companies Act.
- **Historical Financial Information** - Since 31 December 2018, the Group has undergone various changes including the acquisition or disposal of certain assets and liabilities between the Group and Prudential plc and its subsidiaries. Most notably, the completion of the Demerger occurred on 21 October 2019, as a result of which the Group now comprises a separate legal group. The Historical Financial Information has been prepared in order to assist investors to make an informed assessment of the assets and liabilities, profits and losses, financial position and prospects of the Issuer and the Group. All financial information in the Historical Financial Information is stated in respect of the Group for the entirety of the years ended 31 December 2016, 2017 and 2018 and the half years ended 30 June 2018 and 2019 (the “Track Record Period”). The Historical Financial

Information therefore presents the state of the Group's affairs as at each Track Record Period end date and of its profit for the periods then ended, in each case, as if the Group had been a separate legal group for the entirety of those periods. The basis of preparation of the Historical Financial Information is described more fully at section 1.2 thereof.

Non-IFRS Financial Measures

This Prospectus contains certain financial measures that are not defined or recognised under IFRS, including adjusted operating profit before tax and assets under management and administration ("AuMA") (together, the "Non-IFRS Financial Measures"). The Group presents these metrics because they are less affected than IFRS measures of performance by one-time impacts, and therefore, in the Group's view, provide a better basis for assessing trends in the operational performance of the Group over time.

The Non-IFRS Financial Measures are not defined under IFRS and other companies may calculate such measures differently or may use such measures for different purposes than the Group does, limiting the usefulness of such measures as comparative measures. Prospective investors should not consider the Non-IFRS Financial Measures in isolation, as an alternative to consolidated profit before tax, as an indication of operating performance, as an alternative to cash flows from operations or as a measure of the Issuer's profitability or liquidity.

Adjusted operating profit before tax

Adjusted operating profit before tax is the Group's non-GAAP alternative performance measure. Adjusted operating profit before tax is used by the Group for key decision making and the internal performance management of its operating segments as it is less affected by one-time impacts, and is therefore more representative of the normal, long-term performance of the business.

For the Group's fee based business, adjusted operating profit before tax includes fees received from customers and operating costs for the business including overheads, expenses incurred to meet regulatory requirements and regular business development/structuring costs. Exceptional costs associated with fundamental one-off group-wide restructuring and transformation are not included in adjusted operating profit before tax.

For the Group's business written in the with-profits fund, adjusted operating profit before tax includes the statutory transfer to the shareholders gross of attributable shareholder tax. Short term temporary movements in the fair value of instruments held to mitigate equity risk in the transfer are excluded from adjusted operating profit before tax. These hedges are matched to the statutory transfer on an economic basis rather than an IFRS basis, which may result in a mismatch between the movement in the instrument and the corresponding impact on the statutory transfer. Any such mismatch will be reflected in adjusted operating profit before tax.

For the Group's shareholder annuity and non-linked products written by the Heritage segment, adjusted operating profit before tax is calculated using long term investment assumptions which reflect the Group's expectation of investment returns over the lifetime of the relevant product, allowing for expected payments into and from the product. Adjusted operating profit before tax excludes impacts that are the result of short-term, unrealised market movements.

Certain additional items are excluded from adjusted operating profit before tax where those items are considered to be non-recurring or strategic, or considered to be one-off, due to their size or nature, and therefore not indicative of the long-term operating performance of the Group.

AuMA

The closing AuMA represents the total market value of all financial assets managed and/or administered on behalf of customers at the end of each financial period. The average AuMA represents the average total market value of all financial assets managed and administered on behalf of customers during the financial period. Average AuMA is calculated using a 13-point average of monthly closing AuMA for full year periods and seven-point average of monthly closing AuMA for half year periods.

Abbreviations and rounding of figures

The Group's financial information is presented in Pounds Sterling. All references in this document to "US\$", "US dollars" and "\$" are to United States dollars, those to "Pounds Sterling", "Sterling" and "£" are to pounds sterling, those to "euro", "Euro", "€" and "EUR" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

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

SOURCES

Where third party information has been used in this Prospectus, the source of such information has been identified. The Issuer confirms that such information has been accurately reproduced and, so far as the Issuer is aware and has been able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus relate to the future, including forward-looking statements relating to the Group's financial position and strategy. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'intend', 'aim', 'project', 'anticipate', 'estimate', 'plan', 'believe', 'expect', 'may', 'should', 'will', 'continue' or other similar words. These statements discuss future expectations concerning the Group's results of operations or financial condition, or provide other forward-looking statements.

These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, including the risk factors set out in the section entitled "*Risk Factors*", many of which are beyond the Group's control, and

which may cause the actual results to differ materially from those expressed in the statements contained in this Prospectus. The Group's actual results of operations, financial condition and the development of the business sectors in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this Prospectus due to certain factors including, but not limited to, domestic and global economic and business conditions, market-related risks pertaining to the insurance industry as a whole, the policies and actions of regulatory authorities, market developments regarding insurance products, the impact of competition, technological development, inflation, deflation, the timing, impact and other uncertainties of any future acquisitions, combinations or divestments within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which the Group operates. In addition, even if the Group's actual results of operations, financial condition and the development of the business sectors in which it 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. Recipients of this Prospectus are cautioned not to put undue reliance on forward-looking statements.

Other than as required by law, none of the Issuer, its officers, advisers or any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Prospectus will actually occur, in part or in whole.

Additionally, statements of the intentions of the board of directors of the Issuer (the "Board") and/or the directors of the Company as at the date of this Prospectus (the "Directors") reflect the present intentions of the Board and/or Directors, respectively, as at the date of this Prospectus and may be subject to change as the composition of the Board alters, or as circumstances require. Except as required by law, the Issuer disclaims any obligation or undertaking to update or revise any forward-looking statement in this Prospectus.

The forward-looking statements speak only as at the date of this Prospectus. To the extent required by applicable law or regulation (including as may be required by the Companies Act, the Prospectus Regulation Rules of the FCA made under section 73A of the FSMA, the listing rules of the FCA made under section 73A of the FSMA, Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, the disclosure guidance and transparency rules made by the FCA under Part VI of FSMA (as set out in the FCA's Handbook of Rules and Guidance) and the FSMA), the Issuer will update or revise the information in this Prospectus. Otherwise, the Issuer expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this Prospectus to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

RATINGS

The Programme has been rated (P)A2 (Senior Notes) and (P)A3 (Tier 2 Notes) by Moody's, A- (Senior Notes) and BBB (Tier 2 Notes) by S&P and A (Senior Notes) and BBB+ (subordinated debt) by Fitch.

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STABILISATION

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) ACTING AS THE STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT

STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS.

GENERAL DESCRIPTION OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. Any decision to invest in any Notes should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference.

This overview constitutes a general description of the Programme for the purposes of Article 25(1) of Commission Delegated Regulation (EU) 2019/980.

Words and expressions defined in “*Terms and Conditions of the Notes*” below shall have the same meanings in this overview.

Issuer:	M&G plc.
LEI:	254900TWUJUQ44TQJY84.
Description:	Medium Term Note Programme.
Size:	£10,000,000,000 (or its equivalent in other currencies calculated as described herein) from time to time, subject to increase at any time.
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. See “ <i>Risk Factors</i> ”.
Arranger:	Barclays Bank PLC.
Dealers:	Barclays Bank PLC, Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, NatWest Markets Plc.
Trustee:	The Law Debenture Trust Corporation p.l.c.
Principal Paying Agent:	Citibank, N.A., London Branch.
Registrar:	Citibank, N.A., London Branch.
Method of Issue:	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each

Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “Tranche”) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the applicable final terms document (the “Final Terms”).

Issue Price:

Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.

Form of Notes:

The Notes will be issued in either bearer or registered form and may be issued in New Global Note (“NGN”) or held under the New Safekeeping Structure (“NSS”) form as described in “*Provisions Relating to the Notes while in Global Form – Form of Global Notes*”. Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.

Clearing System(s):

Clearstream, Luxembourg and Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer.

Currencies:

Subject to compliance with all applicable laws and regulations, Notes may be issued in any currency agreed between the Issuer and the relevant Dealer at the time of issue.

Specified Denominations:

Notes will be in such denominations as may be specified in the applicable Final Terms, save that in the case of any Notes which are to be admitted to trading on a regulated market within the EEA or offered to the public in an EEA Member State in circumstances which would otherwise require the publication of a prospectus under the Prospectus Regulation, the minimum specified denomination shall be EUR 100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

Maturity:

The Maturity Date (if applicable) will be agreed between the Issuer and the relevant Dealer at the time of issue of the relevant Notes.

The Undated Tier 2 Notes are perpetual securities in respect of which there is no maturity date.

Interest Basis:	Notes may or may not bear interest. Interest-bearing Notes will either bear interest payable at a fixed rate, a floating rate or at a rate which may be reset periodically during the life of the Note. The Notes may be Fixed Rate Notes, Floating Rate Notes, Reset Notes, Zero Coupon Notes or a combination of the foregoing. The margin applicable to the Notes (if any) will be agreed between the between the Issuer and the relevant Dealer at the time of issue of the relevant Notes and specified in the Final Terms.
Interest Periods and Rates of Interest:	Other than Zero Coupon Notes, the length of all interest periods for all Notes and the applicable Rate of Interest or its method of calculation may differ from time to time or be constant for any Series. Other than Zero Coupon Notes, Notes may have a Maximum Rate of Interest, a Minimum Rate of Interest or both.
Fixed Rate Notes:	Fixed Rate Notes will bear interest at a fixed rate payable in arrear on the date or dates in each year specified in the applicable Final Terms.
Floating Rate Notes:	Floating Rate Notes will bear interest determined separately for each Series as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or (ii) by reference to a Reference Rate.
Benchmark Discontinuation:	If Floating Rate Notes or Reset Notes provide for a Rate of Interest (or any component part thereof) to be determined by reference to a reference rate, Reference Rate Replacement or Mid Swap Rate Replacement (as applicable) is specified as applicable in the Final Terms and a Benchmark Event in respect of such reference rate occurs, then the Issuer shall use reasonable endeavours to appoint an Independent Adviser to determine a Successor Reference Rate or Alternative Mid Swap Rate (as applicable), failing which an Alternative Reference Rate (in respect of Floating Rate Notes only), for use in

place of the Original Reference Rate or Mid Swap Rate (as applicable) and to determine an Adjustment Spread (or similar) and any required waivers or amendments. If the Issuer is unable to appoint an Independent Adviser or the Independent Adviser fails to determine a Successor Reference Rate, Alternative Mid Swap Rate or Alternative Reference Rate (as applicable), then the Issuer may determine such Successor Reference Rate, Alternative Mid Swap Rate or Alternative Reference Rate (as applicable), an Adjustment Spread (or similar) and any required waivers or amendments. If the Independent Adviser and/or Issuer is unable to make such determination or determines that no such replacement rate exists at the relevant time, the Rate of Interest shall be determined by reference to the immediately preceding Interest Period.

Reset Notes (*Tier 2 Notes only*): Fixed interest will be payable at the Initial Rate of Interest in arrear on the Interest Payment Date(s) in each year for an initial period as specified in the relevant the Final Terms. Thereafter, the interest rate may be recalculated on certain dates specified by reference to a Mid Swap Rate or a Reference Bond, and for a period equal to the Reset Period, as adjusted for any applicable margin, in each case as specified in the relevant Final Terms.

Zero Coupon Notes (*Senior Notes only*): Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.

Redemption: The terms under which Notes may be redeemed (including, in the case of Senior Notes or Dated Tier 2 Notes, the Maturity Date and the price at which they will be redeemed on the Maturity Date as well as any provisions relating to early redemption of the Notes) will be agreed between the Issuer and the relevant Dealer at the time of issue of the relevant Notes. The Undated Tier 2 Notes are perpetual securities in respect of which there is no maturity date.

Optional Redemption: The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed at the option of the Issuer and/or (in the case of Senior Notes only) the Noteholders (in each case, either in whole or in part) and, if so, the terms applicable to such redemption. No Tier 2 Notes may be redeemed at the option of the Noteholders.

As specified in the Final Terms, and as set out more fully in the Terms and Conditions of the Notes, Notes may also be redeemed at the option of the Issuer following the occurrence of one or more of a Tax Event, Regulatory Event and/or Rating Event.

Status of Senior Notes:

The Senior Notes will constitute direct and, subject to the provisions referred to in the paragraph entitled “*Negative Pledge*” below, unsecured obligations of the Issuer and will rank *pari passu* without preference among themselves.

Status of Tier 2 Notes:

The Tier 2 Notes will constitute direct, unsecured and subordinated obligations of the Issuer and will rank *pari passu* without preference among themselves. The rights of the Holders of the Tier 2 Notes against the Issuer to payment of any amounts under or arising from the Notes will, in the event of the winding-up of the Issuer, be subordinated to the claims of all Senior Creditors.

For these purposes, “Senior Creditors” means any creditors of the Issuer who are unsubordinated creditors of the Issuer (including all policyholders (and including, for the avoidance of doubt, all policyholder claims)).

Interest Deferral (*Tier 2 Notes only*):

Subject to certain conditions, where Optional Interest Deferral or Capital Adequacy Deferral is specified as applicable in the Final Terms, the Issuer may elect in certain scenarios to defer interest payments on the Notes.

The Issuer will also be required to defer interest payments in certain scenarios, as more fully described in the Conditions.

Redemption Deferral (*Tier 2 Notes only*):

Unless otherwise permitted by the Prudential Regulation Authority (the “PRA”), the Issuer is required to defer any scheduled redemption of Tier 2 Notes (whether at maturity (if any) or if it has given notice of early redemption) Notes unless on and immediately after the relevant Redemption Date or date on which the Notes are to be purchased:

- (i) the Issuer has given prior notice to the PRA and the PRA has given its prior approval;
- (ii) the Issuer is in compliance with the Regulatory Capital Requirement;

- (iii) the Issuer satisfies the Solvency Condition;
- (iv) both the Solvency Capital Requirement and the Minimum Capital Requirement are met; and
- (v) no Insolvent Insurer Winding-up has occurred and is continuing.

The PRA may impose further conditions on any redemption or purchase at the relevant time

Negative Pledge (*Senior Notes only*):

Applicable to Senior Notes only. See “*Terms and Conditions of the Senior Notes – Negative Pledge*”.

Taxation:

Payments in respect of all Notes will be made without withholding or deduction of taxes of the United Kingdom, unless the deduction or withholding is required by law. In such an event, the Issuer will, subject to customary exceptions, pay such additional amounts as are necessary in order that the amount received by the Holders after the deduction or withholding shall equal the respective amounts that would have been received in respect of the Notes in the absence of the deduction or withholding.

The obligation to pay additional amounts in respect of the Tier 2 Notes applies only in respect of interest payments (and not in respect of any payments of principal).

Governing Law:

English law.

Listing:

Application has been made to the FCA for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange’s regulated market.

Ratings:

The Issuer has a long-term debt rating of A2 by Moody’s, A- by S&P and A+ by Fitch. The Issuer has a short-term debt rating of A2 by S&P and F1 by Fitch. Each of Moody’s, S&P and Fitch is established in the European Union and is registered the CRA Regulation.

Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, its rating will be specified in the applicable Final Terms. Where a Series of Notes is rated, its rating will not

necessarily be the same as the rating assigned to the Programme by the relevant rating agency.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Selling Restrictions:

United States, EEA, United Kingdom, Italy, Switzerland, Hong Kong, Belgium, Singapore, France and Japan. See “*Subscription and Sale*”.

Notes having a maturity of less than one year

Notes having a maturity of less than one year will constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “*Subscription and Sale*”.

Representation of Noteholders: Trustee.

RISK FACTORS

The Issuer believes that the following factors, which are specific to the Issuer, may affect its ability to fulfil its obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur.

In addition, risk factors which are specific to the Notes issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme as at the date of this Prospectus. If any or a combination of these risks actually occurs, the business, results of operations, financial condition and/or prospects of the Group could be materially and adversely affected, which could result in the Issuer being unable to pay interest, principal or other amounts on or in connection with any Notes or materially and adversely affect the trading price of any Notes.

Prospective investors should note that the risks relating to the Issuer and the Notes summarised in this section are the risks that the Issuer believes to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Notes. However, as the risks which the Issuer faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Words and expressions defined in “Terms and Conditions of the Notes” below shall have the same meanings in this section.

1. RISKS RELATING TO THE GROUP’S BUSINESS

1.1 The Group’s business is conducted in highly competitive environments with developing demographic trends and continued profitability depends upon management’s ability to respond to these pressures and trends

The financial services markets in which the Group operates are highly competitive, with several factors affecting the Group’s continued profitability and its ability to sell its products, including the range, quality, price and yields of the products offered by the Group and the Group’s financial strength, ratings, brand strength and name recognition. Additionally, the Group’s investment management performance, historical bonus levels, ability to respond to developing customer needs in terms of products and servicing, demographic trends and technological advances as well as customer appetite for certain savings products could also affect the Group’s continued profitability and its ability to sell its products. In some of its markets, the Group faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products and/or offer more competitive terms. Further, heightened competition for talented and skilled employees may limit the Group’s potential to grow its business as quickly as planned.

The Group’s principal competitors include many of the major retail financial services companies and fund management companies including, for example, Aviva, Hargreaves

Lansdown, Janus Henderson, Jupiter, Legal & General, Schroders, Standard Life Aberdeen and St. James's Place.

In addition, while diversification of the Group's savings and investments business is ongoing, the Group retains concentration risk to PruFund, a transparent and modern way of with-profits investing in the UK, which offers individuals different rates of smoothed return aligned with their tolerance for risk. This makes the business more vulnerable to factors which reduce PruFund's investment performance and to any design risk arising in respect of it (e.g. in relation to the accumulation of smoothing losses, particularly from lower volatility funds). The Group has launched a number of new products, including the PruFolio range of funds, to reduce this concentration risk and efforts to diversify the Savings & Asset Management product range will continue. However, there is a risk that new products offered by the Group may not be successful and/or that the Group may not achieve the diversification necessary to successfully compete in the markets in which it seeks to operate, which could have an adverse impact on the Group's business, financial condition, results of operations and prospects.

The Group believes competition will intensify across all areas in response to consumer demand, digital and other technological advances, the need for economies of scale and the consequential impact of consolidation, regulatory actions, new non-traditional market entrants and other factors. Customer needs and expectations are changing rapidly, becoming more complex, with increased need for advice and guidance, and an increasing demand for innovative products and simplified service tailored to customers' specific requirements. In particular, in the UK there are several factors which are expected to continue to heighten competition within the sectors in which the Group operates.

The continued evolution of the UK pensions and savings market, particularly the impact of pensions freedoms, means that the Group will need to ensure that it provides customers with the flexible long-term investment solutions that they are increasingly looking for. In the asset management sector, growth in passively-run index trackers continues to gain pace, propelled by the US market and the inability of many active strategies to consistently outperform their benchmarks, net of fees. Market access to passive investing, including strategies driven by smart beta, robot-enabled advice, artificial intelligence and machine learning, is cheap and ubiquitous through passive funds and exchange-traded products, which increases competition.

The Group's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures. Failure to do so may negatively impact the Group's ability to attract and retain customers and, importantly, may limit the Group's ability to take advantage of new business arising in the markets in which it operates, which may have an adverse interest on the Group's business, results of operations, financial condition and/or prospects.

1.2 The implementation of complex strategic initiatives gives rise to significant execution risks, which may affect the operational capacity of the Group and may adversely impact the Group if these initiatives fail to meet their objectives

The markets in which the Group operates are characterised by continued improvements in operational infrastructure, including changes to reflect adviser or customer requirements and preferences, the introduction of new technologies and developments in industry and regulatory standards. These changes could render the Group's existing technology, systems and control environment obsolete.

In response to such challenges, and as part of the implementation of its business strategies, the Group has commenced a number of significant change initiatives. These change initiatives, many of which involve complex interdependencies and/or are of large scale, are also necessary to reduce conduct risk and improve the experience and outcomes for customers, while strengthening the Group's resilience and control environment, and provide the Group with an efficient and scalable platform for future growth. There may be financial, operational, regulatory, customer and reputational implications if such initiatives fail (either wholly or in part) to meet their objectives and could place strain on the operational capacity, or weaken the control environment, of the Group. The scale and nature of the change programmes may cause disruption to resourcing through heightened uncertainty, increased workloads and short-term resource stretch, which, in turn, result in the transformation activities being delayed or not delivered at all and/or the disruption of business as usual activities, all of which may affect the Group's operations. Implementing further strategic initiatives may amplify these risks, particularly if they are undertaken alongside matters relating to the implementation of the Demerger.

In addition to the changes required as a result of the Demerger, the Group's current significant change initiatives include the merger of M&G and Prudential UK and Europe, substantial investment in a transformation programme to improve customer experience and enhance the Group's IT and control environment, as well as various major outsourcing partnerships. The Group may fail to deliver the merger and transformation programme in a timely or cost-effective manner and the merger and transformation programme may fail to achieve the expected shareholder cost savings of approximately £145 million per annum by 2022. This could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Significant operational execution risks arise from these initiatives, including in relation to business functions and processes (data, systems and people) and third party arrangements. It is also possible that there may be insufficient organisational capacity to absorb the anticipated changes. Any disruption caused by, or failure to successfully implement any of, the change initiatives could have an adverse impact on the Group's ordinary course business and, consequently, its financial condition, results of operations and prospects, or otherwise harm the Group's reputation.

1.3 The Group is exposed to conduct risk which could lead to unanticipated financial penalties, reputational damage and, in the case of regulatory enforcement action, the suspension or revocation of regulatory permissions, licences or approvals

Conduct risk is the risk that acts or omissions of the Group, or individuals within the Group, result in poor or unfair outcomes for customers, employees, other stakeholders or affect market integrity. Conduct risk may arise where the Group fails to design, implement or adhere to appropriate policies and procedures, offer products, services or other propositions that do not meet the needs of customers or fails to perform in accordance with their intended design, or fails to communicate appropriately with customers. This risk may also arise where the Group fails to deal with complaints effectively, sells or recommends unsuitable products or solutions to customers, fails to provide them with adequate information to make informed decisions or provides unsuitable investment or financial planning advice to customers, or fails to do any of the foregoing on an ongoing basis after initial sales, among other things.

The Group is exposed to conduct risk arising from the activities and advice practices of its financial advice business and of external advisers that recommend its products. This advice is provided across a diverse range of complex products, including products from third parties, and investment choices, which may result in customers not understanding the terms and characteristics of a product and/or whether a product meets their own financial objectives. In relation to the Group's financial advice business in particular, ongoing transformation within the Group's business, including the development of new product propositions and digitalisation, creates the need to enhance and maintain controls and oversight to ensure that customers receive fair outcomes and transparent terms. The financial advice industry in the UK has also been more generally exposed to mis-selling advice practices, including in relation to personal pensions and annuity products, which has resulted in significant costs of redress.

Conduct risk remains the subject of close regulatory scrutiny. For example, the Group is conducting a review of historic non-advised annuity products in response to the FCA's Thematic Review of Annuity Sales Practices ("TRASP") and will be paying redress to customers where appropriate. In addition to such customer redress, on 30 September 2019, the FCA announced that it had fined The Prudential Assurance Company Limited ("PAC") £23,875,000 (including a 30 per cent. discount under the FCA's executive settlement procedures, reflecting PAC's agreement to accept the FCA's findings) following the FCA's investigation into PAC's failures related to historic non-advised annuity products. Failing to treat customers fairly and appropriately, and failing to demonstrate sufficient suitability processes and monitoring could lead to legal proceedings, regulatory enforcement action or the imposition of a requirement to make redress payments. Given that regulation includes principles-based rules and regulations, the rules and regulations may be subject to differing applications and interpretations by regulators or market participants over time. This could in turn lead to unanticipated financial penalties, reputational damage and, in the case of regulatory enforcement action, the suspension or revocation of regulatory permissions, licences or approvals. Moreover, if the Group fails to detect misconduct on a timely basis, or at all, the Group may face further reputational or financial damage. This is particularly pertinent during periods of strategic transformation, if resources typically focused on ordinary course

business are diverted to transformation delivery, which brings risks to customer outcomes. See *“The implementation of complex strategic initiatives gives rise to significant execution risks, which may affect the operational capacity of the Group and may adversely impact the Group if these initiatives fail to meet their objectives”* above.

Any of the foregoing could have a material adverse effect on the Group’s business, financial condition, results of operations and prospects, or otherwise harm its reputation.

1.4 Adverse experience in the operational risks inherent in the Group’s business could disrupt the Group’s business functions and have a negative impact on its financial condition, results of operations and prospects

Operational risk, the risk of financial and non-financial impact resulting from inadequate or failed internal processes, personnel and systems or external events, is present in all of the Group’s businesses. Exposure to such risk could disrupt the Group’s systems and operations significantly, which may result in financial loss, regulatory censure, adverse customer outcomes and/or reputational damage.

The Group’s business is dependent on processing a large number of transactions across numerous and diverse products, and it currently employs a large number of models, and user developed applications, some of which are complex, in its processes. The long-term nature of much of the Group’s business also means that accurate records have to be maintained for significant periods. Further, the Group operates in an extensive and evolving legal and regulated environment (including in relation to tax) which adds to the operational complexity of its business processes and controls. See *“The Group conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates”* below.

These factors, among others, result in significant reliance on, and require significant investment in, the information technology (“IT”) infrastructure, compliance and other operational systems, personnel and processes for the performance of the Group’s core business activities. The operational effectiveness and resilience of these components may be impacted, particularly in times of significant change. Although the Group’s IT, compliance and other operational systems and processes incorporate controls designed to manage and mitigate the operational and model risks associated with its activities, there remains a risk that such controls will not always be effective. Due to human error among other reasons, operational risk incidents do happen periodically and no system or process can entirely prevent them. Such events could, among other things, harm the Group’s ability to perform necessary business functions, result in the loss of confidential or proprietary data (exposing it to potential legal claims and regulatory sanctions) and damage its reputation and relationships with its customers, regulators and business partners, all of which may have a material adverse effect on the Group’s results of operations and financial condition. Similarly, any weakness in administration systems (such as those relating to policyholder records) or actuarial reserving processes could have a material adverse effect on the Group’s business, financial condition, results of operations and prospects and the reporting of financial results during the effective period.

1.5 Certain aspects of the Group's business, including its strategic initiatives, are dependent on joint venture partners and outsourcing services to third party contractors, suppliers, agents and service providers, which carries various material risks

The Group has an existing and growing reliance on a number of joint venture and outsourcing (including external data hosting) partners to provide several business operations, including a significant part of the UK back office and customer facing operations as well as a number of IT support functions and investment operations. This creates reliance upon the operational performance and resilience of these joint venture and outsourcing partners, and failure to adequately oversee such partners, the insolvency of such a partner or a failure of its key IT and operational systems and processes could result in significant disruption to the Group's business operations and customers, which could impact its financial condition and results of operations.

In particular, much of the Group's business is administered by strategic outsourced partners. Regulatory risk in respect of this outsourcing, as with other outsourcing arrangements put in place by the Group, rests with the Group. The outsourced nature of the services provided means that there remains a risk that customer outcomes or service standards may fall below required levels. In the event that an outsourcing partner fails to adhere to adequate contractual or regulatory standards, particularly in a customer facing element of the business, the Group is exposed to the material risk of regulatory action and reputational harm, and such failure may have a material adverse effect on the Group's financial condition.

Furthermore, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not directly controlled by the Group. The Group's product distribution is therefore dependent upon the continuation of these relationships and such third parties operating in compliance with regulatory standards. A temporary or permanent disruption to these distribution arrangements, such as through significant deterioration in the reputation, financial position or other circumstances of the third party or material failure in the third party's controls (such as those pertaining to third-party system failure, regulatory compliance or the prevention of financial crime) could adversely affect the results of operations of the Group.

In addition, outsourcing and other agreements may also be terminated on certain dates or subject to certain conditions and could be subject to renewal on less favourable terms or not at all. There is a risk that any such non-renewals or losses could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.6 The Group has a high dependency on technology to operate effectively and to meet the needs of its business, customers and clients, the failure of which could disrupt the Group's business functions and have a negative impact on its business, financial condition, results of operations and prospects

The maintenance, integrity and resilience of the Group's IT infrastructure and applications is paramount to meeting the Group's business, customer and client needs. The Group is

currently reliant on a large number of legacy systems spread over a complex supply chain, which creates an enhanced risk of IT issues. The Group may experience outages as a result of computer systems failures or attempts by third parties or malicious insiders to disrupt or improperly access the Group's IT systems. See *"Attempts by third parties or malicious insiders to disrupt or improperly access the Group's IT systems could result in reputational damage, regulatory action or the need for customer redress, each of which could have material adverse effects on the Group's business, financial condition, results of operations and prospects"* below. Such outages may lead to operational issues, reputational damage or customer detriment, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects or damage its reputation.

The Group is currently engaged in a number of initiatives to upgrade and, where required, modernise the Group's IT infrastructure and overall operational resilience, although there remains a risk that such initiatives will not deliver what is required either on time or on budget, or provide the performance levels required to support the current and future needs of the Group and its customers. See *"The implementation of complex strategic initiatives gives rise to significant execution risks, which may affect the operational capacity of the Group and may adversely impact the Group if these initiatives fail to meet their objectives"* above. Failure to achieve such performance levels may have material adverse consequential effects on the Group's business, financial condition, results of operations and prospects.

1.7 Failure by the Group to manage conflicts of interest could result in reputational damage, regulatory action or the need for customer redress, each of which could have material adverse effects on the Group's business, financial condition, results of operations and prospects

The Group faces significant potential and actual conflicts of interest, including conflicts between: (i) the Group and its customers; (ii) the Group's customers; (iii) the Group's employees and its customers; and (iv) its businesses, including where Group employees carry out different roles in other business entities. In particular, the risk of such conflicts, whether actual or perceived, has increased as a result of the merger of M&G and Prudential UK and Europe, which has resulted in the Group's institutional asset management business being one of the key fund managers of monies invested by the Group's retail savings customers. Additionally, PAC, one of the main operating entities in the Group's retail savings business, is a co-investor in a range of funds managed by the Group (e.g. the M&G Dividend Fund). These arrangements could lead to a number of conflicts, including issues relating to fee arrangements, cross-selling, fund redemptions, inducements, adviser disclosures, advice, rebates and treating customers fairly.

While the Directors believe these potential and actual conflicts of interest have been adequately identified and the Group has policies and procedures to manage the risk of conflicts of interests, there remains a risk that the Group will suffer reputational damage or potential regulatory liability if its information barriers, procedures and systems to identify, record and manage potential and actual conflicts of interest fail or are insufficient. Any such failure could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.8 Sustained underperformance across a range of funds, or by one of the Group's larger funds or institutional asset management solutions, could have adverse effects on the Group's business, financial condition, results of operations and prospects

When financial advisers or institutional investors select investment products, or when retail customers select a wealth manager, an important consideration for such customers and/or such intermediaries and advisers is the ongoing investment performance of the products or solutions offered. If the Group were to fail to provide satisfactory investment returns in its portfolios or solutions, the Group may be unable to attract new customers and customers of such solutions (or customers generally) may decide to reduce their investments or withdraw assets altogether in favour of better performing services or competing investment managers. This may have a material adverse effect on the Group's financial condition and financial results, for example by leading to a direct reduction in the level of the Group's AuMA and, as a result, lower fee income.

Any sustained period of actual or perceived underperformance across a range of the Group's funds, or by one of its larger funds or institutional asset management solutions, relative to peers, benchmarks or internal targets, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, or otherwise harm its reputation and its ability to continue to attract new customers and advisers.

1.9 Failure by the Group to attract and retain the necessary personnel at all levels could have adverse effects on the Group's business, financial condition, results of operations and prospects

The Group relies heavily on the quality of key talent and management in each of the regions and countries in which it operates. The success of its operations is dependent on, among other things, the ability to attract and retain highly qualified professional people. It is important that key fund managers and other individuals identified as having key talents and skills critical to the success of the business are engaged and retained and, where necessary, in the event of any unexpected departures, are replaced with the best available talent from either internal or external sources in a timely manner, which may require substantial expense and could therefore affect the Group's financial condition.

Competition for highly qualified professional people in most countries in which the Group operates is intense. The Group's ability to attract and retain key people and, in particular, directors and experienced investment managers and other specialists, is dependent on a number of factors, including prevailing market conditions, culture and working environment and compensation packages offered by companies competing for the same talent. In order to recruit and retain its principal managers and specialists, the Group must offer competitive compensation arrangements, the costs of which may be significant. It is also currently unclear how the UK's withdrawal from the EU, and possible restrictions on the movement of people, may impact the ease with which UK nationals can work in the Group's continental European locations and vice versa. The current political climate, combined with the Group's various strategic initiatives, including ongoing

initiatives related to changes required as a result of the Demerger, have the potential to significantly disrupt the Group's people and business activities.

In connection with the Group's various strategic initiatives, including ongoing initiatives relating to the Demerger, it is, and will continue to be, necessary to ensure that the right people are recruited and retained in order to deliver the Group's transformational agenda. This will be made more difficult if the high demands placed on specialist and senior management resources lead to any unacceptable stretching of resources. See *"The implementation of complex strategic initiatives gives rise to significant execution risks, which may affect the operational capacity of the Group and may adversely impact the Group if these initiatives fail to meet their objectives"* above.

Failure by the Group to adequately manage any of the foregoing risks could have an adverse impact on the Group's business, financial condition, results of operations and prospects, or otherwise harm its reputation and its ability to attract the talent necessary for its business.

1.10 Litigation, disputes and regulatory investigations may adversely affect the Group's business, financial condition, results of operations and prospects

The Group is, and may in the future be, subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of the Group's businesses and operations that are specific to the Group, or that are common to companies that operate in the Group's markets, and this risk may be enhanced in circumstances where the Group is operating in new markets. Legal actions and disputes may arise under contracts, regulations (including in relation to tax) or from a course of conduct taken by the Group, and may be class actions.

Given the large or indeterminate amounts of damages sometimes sought by claimants, other sanctions that might be imposed and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome to any litigation, dispute or regulatory investigation could have an adverse effect on the Group's business, financial condition, results of operations and prospects.

1.11 The failure to understand and respond effectively to the risks associated with environmental, social or governance ("ESG") factors could adversely affect the Group's achievement of its long term strategy

The business environment in which the Group operates is continually changing. ESG-related issues may directly or indirectly impact key stakeholders, ranging from customers to institutional investors, employees, rating agencies, suppliers and regulators, all of whom have expectations in this area. A failure to manage those material risks which have ESG implications may adversely impact on the reputation of the Group, the results of its operations, its customers, and its ability to deliver on its long-term strategy and therefore its long-term success.

Climate change is one ESG theme that poses potentially significant long-term risks to the Group and its customers, not only from the physical impacts of climate change, driven by both specific short-term climate-related events such as natural disasters and longer-term impacts, but also from transition risks associated with the shift to a low carbon economy. There is an increasing expectation from stakeholders for the Group to understand, manage and provide increased transparency of its exposure to climate-related risks. For example, the recommendations of the Financial Stability Board's ("FSB") Task Force on Climate-related Financial Disclosures were published in 2017 to provide a voluntary framework on corporate climate-related financial disclosures following the FSB's concern that there may be systemic risk in the financial system related to climate change.

As governments and policymakers take action to reduce greenhouse gas emissions and limit global warming, the transition to a low carbon economy could have an adverse impact on global investment asset valuations whilst at the same time presenting investment opportunities which the Group will need to monitor. In particular, there is a risk that this transition could result in some asset sectors facing significantly higher costs and a disorderly adjustment to their asset values. This could lead to an adverse impact on the value and the future performance of the investment assets of the Group. The potential broader economic impact from this may impact upon customer demand for the Group's products. Given that the Group's investment horizons are long term, it is potentially more exposed to the long-term impact of climate change risks. Additionally, the Group's stakeholders increasingly expect responsible investment principles to be adopted to demonstrate that ESG considerations (including climate change) are effectively integrated into investment decisions, fiduciary and stewardship duties and corporate values. Failure by the Group to have proper regard to ESG considerations in relation to its investment portfolios could lead to a loss of existing or potential customers and have an adverse effect on customer perceptions and, consequently, the Group's business, financial condition, results of operations and prospects.

1.12 Adverse experience relative to the assumptions used to price products and report business results could significantly affect the Group's results of operations and financial condition

The Group needs to make assumptions about a number of factors in determining the pricing of its products, for setting reserves, and for reporting its capital levels and the results of its long-term business operations. For example, the assumption that the Group makes about future expected levels of longevity is particularly relevant for its UK annuity business, where payments are guaranteed for at least as long as the policyholder is alive, and potentially also while a dependant is alive. The Group conducts rigorous research into longevity risk, using industry data as well as its own substantial annuitant experience. As part of its pension annuity pricing and reserving policy, the Group's UK business assumes that current rates of longevity continuously improve over time at levels based on adjusted data and informed by models from the Continuous Mortality Investigation (CMI) as published by the Institute and Faculty of Actuaries. Although the Group has withdrawn from selling annuities in the UK open market, the assumptions it makes about longevity rates remain key to the measurement of its insurance risk, given its significant annuity portfolio. If longevity improvement rates significantly exceed the improvement assumed (e.g., following a step change in cancer diagnostics or Alzheimer's treatment),

the Group's results of operations could be adversely affected, which could impact its results of operations and financial condition.

A further factor is the assumption that the Group makes about future expected levels of the rates of early termination of products by its customers (known as persistency). This is relevant to a number of lines of business, although the persistency levels for the Group's legacy annuity products are consistently high as no surrender value (money paid to policyholders in the event they voluntarily terminate their policy) was available under these products. The Group's persistency assumptions reflect a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly different than assumed, the Group's results of operations and financial condition could be adversely affected.

1.13 Breaches by the Group of investment mandates could lead to significant losses

The Group is generally required to invest in accordance with specific investment mandates or objectives established for the particular portfolio or product (or in the case of segregated mandates, set by the customer or its adviser). If investments are made in breach of an investment mandate, including with regard to the use of benchmark indices, the Group could be required to unwind the relevant transactions, could suffer reputational and brand damage and would likely be liable for any losses suffered by an affected party in doing so. Such losses could be significant and exceed amounts recoverable under the Group's insurance policies, if any. The potential reputational and brand damage and the obligation to compensate for such losses could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. See "*The Group is exposed to conduct risk which could lead to unanticipated financial penalties, reputational damage and, in the case of regulatory enforcement action, the suspension or revocation of regulatory permissions, licences or approvals*" above.

1.14 The Group's business is dependent on the strength of its brands and its reputation, which are vulnerable to adverse market perception

The Group operates in industries where integrity, trust and confidence are paramount. The Group's success and results are, to a certain extent, dependent on the strength of its brand and reputation. While the Group (including its constituent elements of M&G and Prudential UK and Europe) is well recognised, it is, following the Demerger, vulnerable to adverse market or customer perception, including customer perception of the standalone business. The Group is exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, press speculation and negative publicity, disclosure of confidential customer information, and inadequate services, among other factors, whether or not well founded, could impact its brand or reputation.

The Group's brand or reputation could also be affected if it (or any intermediaries) recommends products or services that do not perform in line with customers' expectations (whether or not the expectations are well founded). Furthermore, as part of its diversified

investment strategy, the Group invests in a broad range of asset classes, including shares in other companies as well as real estate and other alternative assets. There is a risk that any adverse market or customer perception of the companies or assets in which the Group invests could impact the Group's brand or reputation.

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

1.15 The Group's customers may withdraw assets under management at short notice

The Group derives significant revenue from management fees, the quantum of which is based on the value of AuMA. A proportion of the Group's products permit investors or customers to reduce the aggregate amount of their investment with no, or only short periods of, notice, or to withdraw altogether from such portfolios or contracts. If interest rates rise, stock markets decline or the Group's investment performance underperforms, the pace of redemptions and withdrawals could accelerate. A significant or systemic withdrawal of AuMA would result in lower management fees and therefore revenues and, depending on the extent of such withdrawals, could impact the Group's business, financial condition, results of operations and prospects.

Redemptions and withdrawals of investment assets may also be requested more quickly than assets can be sold to meet such redemptions and withdrawals. The Group may hold certain investments within investment portfolios on behalf of customers that may lack liquidity (such as property and private debt). If significant cash resources are required at short notice in excess of expected cash requirements, it may be difficult to sell illiquid investments held by the Group in a timely manner, or at all. Even in respect of more liquid investments, the Group is exposed to asset valuation uncertainty, arising due to the fact that a fair valuation of many assets can take a range of plausible values. Any such uncertainty, whether owing to illiquidity or valuation risk more generally, may lead to losses for the Group in the event of unanticipated customer withdrawals and/or redemptions.

In such circumstances, the Group may be forced to sell assets at significantly lower prices than the price at which they were initially recorded and/or suspend customer redemptions, which could adversely affect the Group's business, results of operations, financial condition, prospects and reputation. See also "*Increased illiquidity in the Group's investments may mean that assets are not readily realisable to meet policyholder and third party payments as they fall due*" below. Although the Group attempts to maintain sufficient liquidity to meet customer redemptions, there have been examples in recent years for the Group and other asset managers where this has not always been possible. This is particularly the case during periods of economic or political uncertainty when customer redemption levels may be heightened and sustained and particularly also in respect of funds holding relatively illiquid assets such as property. In such cases, it may be (and has previously been) necessary or prudent for the Group temporarily to suspend trading in the affected fund or funds. Such temporary suspensions could impact the Group's reputation, business, financial condition, results of operations and prospects.

1.16 Attempts by third parties or malicious insiders to disrupt or improperly access the Group's IT systems could result in reputational damage, regulatory action or the need for customer redress, each of which could have material adverse effects on the Group's business, financial condition, results of operations and prospects

The Group is increasingly exposed to the risk that individuals or groups may attempt to disrupt the availability, confidentiality, integrity and resilience of its IT systems, which could result in disruption to key operations, make it difficult to recover critical services, damage assets and compromise the integrity and security of data (both corporate and customer). This could result in loss of trust from the Group's customers, employees and other stakeholders, reputational damage and direct or indirect financial loss. The cyber-security threat continues to evolve globally in sophistication and potential significance, particularly in light of the Group's growing digital footprint.

The Group's increasing digital profile in its current markets and those in which it is entering, growing customer interest in interacting with their savings and investments providers and asset managers through the internet and social media and improved brand awareness could all increase the likelihood of the Group being considered a target by cyber criminals. Further, there have been changes to the threat landscape and the risk from untargeted but sophisticated and automated attacks has increased. The Group has been, and likely will continue to be, exposed to attempts at unauthorised access and cyber-security attacks such as 'denial of service' attacks (which, for example, can cause temporary disruption to websites and IT networks), phishing and disruptive software campaigns. The occurrence of any such attacks could adversely affect the Group's reputation, business, financial condition and results of operations.

Developments in data protection worldwide (such as the implementation of the General Data Protection Regulation ((EU) 2016/679) ("GDPR"), which entered into force on 24 May 2016 and has applied to all European Union ("EU") member states from 25 May 2018) may also increase the financial and reputational implications for the Group following a significant breach of its (or its third-party suppliers') IT systems. See "*The Group is subject to regulation regarding the use of personal customer data*" below.

The Group is continually enhancing its IT environment to improve its cyber security and operational resilience in order to remain secure against emerging threats and is continually upgrading its ability to detect system compromise and recover should such an incident occur. However, there remains a risk that such events will take place which may have material adverse consequential effects on the Group's business, financial condition, results of operations and prospects.

1.17 The Group is rated by several rating agencies, and a decline in its financial strength or any credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties

The Group's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder and counterparty obligations, are important factors affecting public confidence in the Group's products, and as a result its competitiveness. Downgrades in the Group's ratings as a result of, for example,

decreased profitability, increased costs, increased indebtedness or other concerns could have an adverse effect on its ability to market products, retain current policyholders, and on the Group's financial flexibility.

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or the Group's financial condition. The interest rates the Group pays on its current and future borrowings may also be affected by its credit ratings. These eventualities resulting from a decline in the Group's financial strength or credit ratings could adversely affect the Group's business, financial condition, results of operations and prospects, or otherwise harm its reputation.

1.18 The Group's debt service obligations and leverage could have adverse effects on the Group's business, financial condition, results of operations and prospects

The Group has various ongoing debt service obligations, and is subject to customary covenants under the terms of its debt. On 27 March 2019, the Issuer entered into four unsecured revolving credit facilities with aggregate commitments of £1.5 billion (each a "Revolving Credit Facility" and, together, the "Revolving Credit Facilities"), which as at the date hereof are (and are expected to remain) undrawn. In addition, the Issuer has in issue Tier 2 subordinated notes with a nominal amount (translated into Pounds Sterling at the exchange rate prevailing as at 30 June 2019, where applicable) of £3,243 million, which were initially issued by Prudential plc and in respect of which the Issuer was substituted as issuer immediately prior to the Demerger in accordance with the terms of those notes.

The Issuer's debt obligations may increase the Group's vulnerability to adverse general economic or industry conditions that are beyond its control, and may place the Group at a competitive disadvantage compared to its competitors that may have less debt. Any increase in the level of the Group's indebtedness may also negatively impact its credit rating. See "*The Group is rated by several rating agencies, and a decline in its financial strength or any credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties*" above. If the Issuer utilises its Revolving Credit Facilities, increased interest rates could also increase the Group's debt interest costs, as these facilities have floating interest rates. A significant increase in the amount of interest payable by the Group could adversely affect the Group's business, financial condition, results of operations and prospects.

1.19 Inability of reinsurers or hedge counterparties of the Group to meet their obligations, or the unavailability of adequate reinsurance coverage, could have material adverse effects on the Group's business, financial condition, results of operations and prospects

The Group transfers exposure to certain risks to others through reinsurance and hedging arrangements. When the Group obtains reinsurance or enters into a hedging arrangement, it remains primarily liable for the reinsured or hedged risks, regardless of whether the reinsurer or hedge counterparty meets its reinsurance or hedging obligations. Therefore, the inability or unwillingness of the Group's reinsurers or hedge counterparties

to meet their financial obligations or disputes on, and defects in, reinsurance or hedging contract wording or processes, could materially affect the Group's business, financial condition, results of operations and prospects.

Even if a reinsurer or hedge counterparty has a good credit rating at the time the relevant reinsurance or hedging arrangement is entered into, such reinsurer or hedge counterparty may become less financially sound by the time it is called upon to pay amounts due. If a catastrophic event or any inability to meet financial obligations caused these counterparties to default, the Group's business profitability could be significantly affected to the extent that any collateral mechanism, if any such mechanism is in place, also fails.

Furthermore, market conditions beyond the Group's control determine the availability and cost of the reinsurance or hedging protection purchased. Due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings, the Group is exposed to concentration risk with a small number of reinsurers. Accordingly, the Group may be forced to incur additional expenses for reinsurance or hedging or may not be able to obtain sufficient reinsurance or hedging on acceptable terms, or such reinsurance or hedging may prove inadequate to protect against losses, any of which could adversely affect the Group's business, financial condition, results of operations and prospects.

In particular, the Group has an exposure to Rothesay Life plc ("Rothesay Life") following the reinsurance of £12 billion of PAC's shareholder-backed annuity portfolio (the "Annuity Portfolio") to Rothesay Life. This transaction was implemented by way of a collateralised reinsurance arrangement, which is expected to be followed by an insurance business transfer scheme (the "Scheme") under Part VII of FSMA. On 16 August 2019, the High Court of England and Wales (the "High Court") declined to sanction the Scheme, despite the independent expert, who was appointed to report to the High Court, concluding that the transfer would have no material adverse effect on the security of benefits or the reasonable benefit expectations of PAC's policyholders. On 27 September 2019, PAC and Rothesay Life lodged a notice of appeal with the Court of Appeal in respect of the High Court's judgment. No timetable has yet been set for the appeal process. While the High Court's judgment has no direct impact on the reinsurance with Rothesay Life and is not expected to have any material impact on the financial position or prospects of the Group, the Group's exposure to Rothesay Life will continue until the Scheme is approved.

1.20 As a holding company, the Issuer is dependent upon its subsidiaries to cover operating expenses, dividend payments and debt obligations

The Group's insurance and investment management operations are conducted through direct and indirect subsidiaries of the Issuer, which are subject to the risks discussed elsewhere in this "*Risk Factors*" section.

As a holding company, the Issuer's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper.

Certain of the Issuer's subsidiaries are or may become subject to applicable insurance, foreign exchange and tax laws, rules and regulations and other arrangements that can limit their ability to make remittances and/or require the Issuer to make capital or liquidity available to those subsidiaries. In some circumstances, this could limit the Issuer's ability to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group or, in the long term, to satisfy its debt obligations. A material change in the financial condition any of its subsidiaries may have a material effect on the results of operations and financial condition of the Issuer.

1.21 The Group's risk management policies and procedures may not adequately identify or anticipate all risks facing its businesses, which may result in the Group being exposed to unforeseen financial impacts or reputational damage

Management of risk requires, among other things, policies and procedures to anticipate, identify, assess, manage, control and report effectively on risks. Some risk exposures are quantified using mathematical models which are calibrated using a combination of historical data and expert judgement. As a result, these methods may not fully predict future exposures, which can be significantly greater than historical measures indicate, particularly in unusual markets and environments. Other risk management methods depend upon the evaluation of information, regarding markets, customers, catastrophe occurrence or other matters that are, or will be, accessible to the Group. In respect of known risks, this information may not always be accurate, complete, up to date or properly evaluated and, in respect of unknown risks, no information may be available at all. Although the Group makes use of forward-looking risk indicators and other risk management tools across its business where appropriate, it is not possible for these indicators to precisely predict future outcomes which may result in the Group being exposed to unforeseen financial impacts or reputational damage.

1.22 The Issuer is a newly independent publicly listed company and as such may be vulnerable to certain operational and financial challenges

Following the Demerger, the Issuer is operating for the first time as an independent publicly listed company. In preparation, the Group has enhanced its standalone arrangements in a wide range of areas, including capital and liquidity management, finance and investor relations, which it either did not previously require or where it previously relied on support and services from Prudential plc and its subsidiaries and subsidiary undertakings (the "Prudential Group"). However, there remains a risk that the Group could suffer operational difficulties without access to the support and services from the Prudential Group from which it previously benefited, which could result in the Group failing to realise any or all of the anticipated benefits of the Demerger. Further, the realisation of the anticipated benefits of the Demerger is subject to a number of factors, including many which are outside the control of the Group. There can be no guarantee that the anticipated benefits of the Demerger will be realised in full or in part, or as to the timing at which any such benefits may be realised. Such adverse implications could impact the ordinary course business of the Group and, consequently, its financial condition, results of operations and prospects.

Prior to the Demerger, the Group managed its capital and liquidity as part of the Prudential Group. There remains a risk that operating independently may reduce the Group's flexibility to deal with unexpected events without additional resources. In addition, there is a risk that the actual costs of the standalone arrangements could be higher than expected and/or that the Group will need to further invest in new services and functions. These risks, individually or together, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Issuer and Prudential plc have entered into several agreements which together govern the post-Demerger obligations of the Issuer and Prudential plc, including a co-existence agreement governing the use of certain intellectual property following the Demerger entered into between the Issuer, Prudential plc and Prudential Financial, Inc. Similarly to any contractual arrangement with a third party, there is a risk that any of Prudential plc, other members of the Prudential Group and/or Prudential Financial, Inc. may fail to comply with their respective contractual obligations, including in respect of any amounts due to the Issuer. Should any counterparty fail to comply with its obligations towards the Issuer, this could have an adverse effect on the Group's business, results of operations and financial conditions. See *"Credit risk and counterparty risk could have adverse effects on the Group's business, financial condition, results of operations and prospects"* above.

The Demerger could impact customers' perceptions of the Group and, therefore, adversely affect the ability of the Group to attract and retain customers, which could result in reduced sales of its products. Additionally, the Demerger may prompt third parties to re-price, modify or terminate their contractual relationships with the Group, which may adversely affect the ability of the Group to retain a competitive network of agents, counterparties and distributors. In response to any of the foregoing, individually or together, the Group may be forced to lower its service levels or the prices of its products, reduce returns or bonus rates or take other actions to manage and/or maintain its relationships with customers and third parties.

Should any of the consequences set out above occur, individually or together, the Group may suffer an adverse impact on its business, financial condition, results of operations and prospects.

2. RISKS RELATING TO THE ISSUER'S INDUSTRY

2.1 The Group's business is inherently subject to market fluctuations and general economic conditions, each of which may adversely affect the Group's business, financial condition, results of operations and prospects

Uncertainty, fluctuations or negative trends in international economic and investment climates could have a material adverse effect on the Group's business and profitability and pose a material risk to the Group's results of operations and financial condition. The Group operates in a macroeconomic and global financial market environment that presents significant uncertainties and potential challenges. For example, government interest rates in the UK and other countries in which the Group operates remain low

relative to historical levels. New challenges related to market fluctuations and general economic conditions may also continue to emerge.

Global financial markets are subject to uncertainty and volatility created by a variety of factors. These factors include monetary policy in the UK and other jurisdictions together with its impact on the valuation of all asset classes and effect on interest rates, inflation expectations, concerns over sovereign debt, a general slowing in world growth, the increased level of geopolitical risk and policy-related uncertainty (including the imposition of trade barriers) and potentially negative socio-political events.

In general, upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. As a result, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for new insurance products may also be adversely affected. Similarly, the majority of PruFund business is written without guarantees and, although smoothing mechanisms provide some protection for policyholders, larger market changes could give rise to more significant outflows. In addition, there may be a higher incidence of counterparty failures. This environment could have a negative impact on the insurance sector over time and may consequently have a negative impact on the Group's business, financial condition, results of operations and prospects.

Economic uncertainty and volatility may also have a material adverse effect on the Group's asset management business, which is affected by customer behaviour, adviser views on suitability of investments, the performance of capital markets and financial market sentiment. This environment could lead to significant AuMA outflows for asset managers and could have a negative impact on the asset management sector and may consequently have a negative impact on the Group's business and profitability. In addition, the Group invests directly in a broad range of asset classes and, as a result, its income is subject to the price volatility of global financial and currency markets. Any material adverse effect on these investments could reduce the portion of the profits from the UK with profits funds which shareholders of the Issuer are entitled to receive.

Any of the foregoing, individually or together, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

2.2 Exposure to domestic and global political developments, including the UK's withdrawal from the EU, and their impact on financial markets may have a material adverse effect on the Group's business, financial condition, results of operations and prospects

Political change has the potential to impact the businesses of the Group directly through the introduction of new laws or regulations or indirectly by altering investor or customer sentiment.

Specific global political risks to which the Group is exposed include instability within Europe, the UK leaving the EU and shifts in the focus of some governments toward more protectionist or restrictive economic and trade policies, each of which could have an

impact on the degree and nature of regulatory changes and the Group's competitive position in some geographic markets.

The UK's decision to leave the EU will have political, legal and economic ramifications for both the UK and the EU, although these are expected to be more pronounced for the UK. The outcome of the negotiations on the UK's withdrawal and any subsequent negotiations on trade and access to the country's major trading markets, including the single EU market, is currently unknown. As a result, there is ongoing uncertainty over the terms under which the UK will leave the EU, in particular after any agreed transitional period, and the potential for a disorderly exit by the UK without a negotiated agreement. Due to the geographic location of the Group's businesses and customers, the Group has particular scope to be affected.

In particular, depending on the nature of the UK's exit from the EU, some or all of the following risks may materialise, the extent of which may be more pronounced if the UK leaves the EU without a negotiated agreement and which may impact the Group's business, financial condition, results of operations and prospects:

- The UK and EU may experience a downturn in economic activity. The effect of any downturn is expected to be more pronounced for the UK particularly in the event of a disorderly exit by the UK from the EU. Market volatility and illiquidity may increase in the period leading up to, and following, the UK's withdrawal. A disorderly exit could also lead to potential downgrades in sovereign and corporate debt ratings in the UK and the EU and falls in UK property values. In a severe scenario where the UK's sovereign rating is downgraded by potentially more than one notch, this may also impact on the ratings of UK companies, including the Group. Further or prolonged interest rate reductions may occur due to monetary easing or adverse market sentiment. See *"The Group's business is inherently subject to market fluctuations and general economic conditions, each of which may adversely affect the Group's business, financial condition, results of operations and prospects"* above.
- The UK's exit from the EU could result in significant changes to the legal and regulatory regime under which the Group operates, the nature and extent of which remain uncertain while the outcome of negotiations regarding the UK's withdrawal from the EU is unknown and the extent and terms of any future access to the single EU market remains to be agreed. There may be an increase in complexity and costs associated with operating in regulatory jurisdictions which could become less harmonised and the Group may become subject to differing capital or other requirements.
- There may be increased risk of operational disruption to the business. Access to the EU market or certain customers, and the ability to service EU customers, may be adversely impacted, although mitigation plans are in place to reduce the negative impact. Negative market sentiment towards the UK from investors may result in negative fund flows and EU service providers may be less willing, or unable to, service UK fund managers, both of which may negatively impact on the asset management business of the Group. The insurance business may

experience higher product lapses and the ability to retain and attract appropriately skilled staff from the EU may be adversely impacted. Contractual documentation may also need to be renegotiated or redrafted in order to remain effective.

The precise impact of the current difficult political environment is uncertain. However, it is possible that the effects will include higher unemployment and inflation in the UK, continental Europe and the global economy, at least in the short to medium term. It could also create constraints on the ability of the Group to operate efficiently.

Any of the foregoing, individually or together, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

2.3 A decline in equity or property markets or an increase in volatility in equity or property markets may adversely affect the investment portfolio and profitability of the Group

The Group is exposed to market risk arising from the valuation of the shareholders' proportion of the with-profits fund's future profits, which is, in turn, dependent on the value of the assets held therein (including equities and property).

The prices of the Group's holdings of equity and property investments can change depending on market conditions. Significant downturns and volatility in equity or property markets could have a material adverse effect on the Group's financial condition and financial results by impacting the investment portfolio, revenues and returns from insurance and fund management businesses.

Additionally, reduced investment returns arising on the Group's portfolios could reduce the Group's capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees, and/or have a material adverse effect on its financial condition, for example through a negative impact on its AuMA and profit.

2.4 A prolonged period of low interest rates and interest rate volatility may adversely affect the Group

The Group is exposed to changes in the shape and level of yield curves and changes in the correlation of interest rates with different financial instruments (including debt obligations of the Group where these are determined or priced according to a floating interest rate). In particular, the Group is exposed to further falls in interest rates or a prolonged period of low interest rates.

A material fall in interest rates may increase the Group's technical provisions and/or the amount of regulatory capital that the Group is required to hold due to the impact on the Group's balance sheet risk margin and solvency capital requirements ("SCR"). In particular, interest rate risk arises in relation to the need for the Group to match cashflows to its annuity obligations with those from its investments, the requirement to include a balance sheet risk margin under "Solvency II" (being the Solvency II Directive and the Solvency II Regulation, each as defined in the Conditions) and the interest rate sensitivity

of product guarantees in relation to the with-profits business. See *“The Group’s business is inherently subject to market fluctuations and general economic conditions, each of which may adversely affect the Group’s business, financial condition, results of operations and prospects”* above and *“Market fluctuations could affect the levels of regulatory capital that the Group is required to hold, which could materially impact the Group’s results and, in extreme circumstances, lead to enforcement action being taken against the Group”* below.

The Group’s investment portfolios contain instruments which are sensitive to interest rates, such as fixed income securities, and which may be adversely affected by changes in interest rates. A decline in interest rates, or a prolonged low interest rate environment, may cause borrowers to prepay or redeem fixed income securities, commercial mortgages and mortgage-backed securities in the Group’s investment portfolio with greater frequency in order to capitalise on lower rates. This could force the Group to reinvest proceeds from investments which have matured or been prepaid or sold at lower yields, reducing the Group’s investment margin, which may materially affect its results of operations.

The Group also remains exposed to the risk that changes in interest rates will negatively impact the difference between the amounts required to be paid under annuity contracts and the rate of return the Group is able to earn on investments intended to support its obligations under those contracts (being the “spread”). Although the Group has withdrawn from selling annuities in the UK open market, and the importance of the spread as a component of adjusted operating profit before tax has lessened following UK pension reforms in 2015, this area remains a material risk and may affect the Group’s results of operations.

Additionally, a significant part of the profit from the Group’s insurance operations is related to bonuses for policyholders declared on with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as the Group’s expectations of future investment returns. This profit could be lower in a sustained low interest rate environment, which could, in turn, adversely affect the Group’s business, financial condition, results of operations and prospects.

2.5 The Group is subject to the risk of exchange rate fluctuations as portfolios managed by the Group include a range of assets that are denominated in foreign currencies

Certain parts of the Group operate internationally and are exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies, including euros and US dollars. Customer portfolios managed by the Group include a range of assets that are denominated in foreign currencies, including foreign equities and bonds. The effect of exchange rate fluctuations on these assets could lead to significant fluctuations in the amount of fee income generated or the shareholder transfers from the with-profits fund. Exposure to foreign exchange risk is of particular concern in light of the uncertainty over the final terms of the UK’s relationship with the EU. In the short to medium term, volatility of financial markets may have a material adverse effect on the Group’s business, financial condition, results of operations and prospects.

2.6 Credit risk and counterparty risk could have adverse effects on the Group's business, financial condition, results of operations and prospects

The potential for a reduction in the value of investments which is driven by the market's perception of the likelihood of defaults of investment and other counterparties, or "credit risk", is a material financial risk for the Group. As a type of credit risk, counterparty risk (or the risk of a counterparty to a contract being unable to meet its obligations) may also have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group is exposed to credit risk and counterparty risk throughout its business, through its investments, including those in fixed income assets (which provide cashflow needed to match policyholder payments), exposures through derivatives and reinsurance contracts, as well as in placing cash deposits at certain banks. See *"Inability of reinsurers or hedge counterparties of the Group to meet their obligations, or the unavailability of adequate reinsurance coverage, could have material adverse effects on the Group's business, financial condition, results of operations and prospects"* above.

The risks in these assets and exposures may be borne by the Group, by the policyholders whose policies the relevant assets back, or a mixture of the two. A counterparty default could create an immediate loss or a reduction in future profits, depending on where the loss occurred in the business. Such losses could have a material adverse effect on the results of operations and financial condition of the Group.

2.7 A widening in credit spreads may adversely affect the profitability of the Group

Widening credit spreads may reduce the value of the Group's investment portfolio, which could impact the Group's profitability in several ways.

Profits from fees taken on unit-linked funds and other third party assets invested in corporate bonds would fall when spreads widen. Other areas where widening credit spreads could impact the Group's profitability are the valuation and matching of annuity and other long-term liabilities.

In addition, market volatility can make it difficult to value securities if trading becomes less frequent. Accordingly, valuations of investments may include assumptions or estimates that may have significant period-to-period changes due to market conditions, which could have a material adverse effect on the Group's profitability and financial condition.

2.8 The Group is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of state or monarchs) in the countries in which the issuers are located and the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or

unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and the Group may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cashflow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to devalue their currencies' exchange rates, or may adopt monetary and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a technical default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers.

In addition, if a sovereign default or other such event described above were to occur, other financial institutions may also suffer losses or experience solvency or other concerns, and the Group might face additional risks relating to any debt held issued by financial institutions held in its investment portfolio or other contractual exposures to such financial institutions. There is also a risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be adversely affected, as might counterparty relationships between financial institutions. If a sovereign were to default on its obligations, or adopted policies that devalued or otherwise altered the currencies in which its obligations were denominated, this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

2.9 Price and earnings inflation may adversely impact the Group's business, financial condition, results of operations and prospects

A significant proportion of the Group's cost base is fixed (including the large portion of operational costs associated with staffing) and, as such, the Group's profitability is geared to market performance, which may be adversely impacted by an inflationary environment. If such costs are not controlled, the financial condition of the Group may be impacted. In addition, significant increases in inflation could impact the Group's unit costs in other ways and potentially impact profitability and financial and capital position, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group is also subject to inflation risk through its holdings of fixed interest and other investments and as a result of the potential for the cost of claims and expenses to rise faster than anticipated in the Group's pricing or reserving.

2.10 Increased illiquidity in the Group's investments may mean that assets are not readily realisable to meet policyholder payments as they fall due

As part of its diversified investment strategy, the Group invests in a broad range of asset classes and may from time to time hold certain investments that lack liquidity, such as real estate and privately placed fixed-maturity securities. This exposes the Group to liquidity risk arising from the need to have sufficient liquid assets to meet policyholder payments as they fall due.

If the illiquidity of the Group's investments increases and/or significant resources are required at short notice in excess of expected policyholder requirements, it may be difficult to sell illiquid investments held by the Group in a timely manner, or at all. In such circumstances, the Group may be forced to sell assets at significantly lower prices than the price at which they were initially recorded. If the Group is forced to sell assets at significantly lower prices than the price at which they were initially recorded and/or suspend policyholder payments, this could adversely affect the Group's reputation and, consequently, its business, financial condition, results of operations and prospects.

2.11 Market fluctuations could affect the levels of regulatory capital that the Group is required to hold, which could materially impact the Group's results and, in extreme circumstances, lead to enforcement action being taken against the Group

The Group is subject to the consolidated prudential supervision of the PRA and as such is required to hold eligible Own Funds in excess of the group SCR, which is calculated by reference to the key risks faced by the Group. Individual entities within the Group are also subject to prudential supervision on a solo basis (including as regards regulatory capital). Regulated entities within the Group which are regulated by the FCA, including a number of entities in the Group's asset management business, or authorised or regulated in non-UK jurisdictions, are required to hold regulatory capital on a solo basis in accordance with FCA or local regulatory capital requirements. Changes to requirements under any of the foregoing regimes may increase the overall regulatory capital requirements to which the Group is subject.

The Group's business is inherently subject to market fluctuations and general economic conditions. Fluctuations in the financial markets, particularly in interest rates, could potentially adversely affect the financial condition of the Group which could, in turn, have an adverse impact on its regulatory capital position, increase the regulatory capital requirements to which it is subject or otherwise affect its ability to meet its regulatory capital requirements. In addition, adverse economic conditions could influence the counterparty credit risks to which the Group is subject which could, in turn, increase the regulatory capital requirements to which the Group is subject. See "*Credit risk and counterparty risk could have adverse effects on the Group's business, financial condition, results of operations and prospects*" above.

Failure to meet applicable capital requirements could lead to regulatory enforcement action being taken against the Group by the PRA, FCA or another regulator. A potential result of any such action may be that the Group is required to restore its regulatory capital to acceptable levels which could materially impact the Group's results. See "*The Group*

conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates” below.

3. RISKS RELATING TO REGULATION AND LEGISLATION

3.1 The Group conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations in the markets in which it operates

Changes in government policy, legislation (including in relation to tax), regulation, regulatory interpretation and capital control measures on companies and individuals may adversely affect the Group. Decisions taken by regulators in connection with their supervision of members of the Group (which in some circumstances may be applied retrospectively) may also adversely affect the Group. Any such changes or decisions affecting the Group's third party contractors, suppliers, agents and service providers may also adversely affect the Group.

Such changes or decisions may affect the Group's product range, distribution channels, handling and usage of data, competitiveness, reputation, profitability, capital requirements, investments, risk management approaches, corporate or governance structure and, consequently, reported results, financing requirements and the financial condition of the Group. Also, regulators in jurisdictions in which the Group operates may impose requirements affecting the allocation of capital and liquidity between different business segments of the Group, whether on a geographic, legal entity, product line or other basis. Regulators may change the level of capital required to be held by individual businesses, the regulation of selling practices and solvency requirements, and could introduce changes that impact the products sold. Furthermore, as a result of interventions by governments in light of financial and global economic conditions, there may continue to be changes in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transactions and enhanced supervisory powers. Any of the foregoing, individually or together, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, or otherwise harm its reputation.

A determination that the Group or any third party distributor or joint venture partner has failed to comply with applicable law or regulation could lead to regulatory action against the Group. This could in turn result in the suspension or revocation of regulatory authorisations, permissions or approvals, financial penalties, adverse publicity for, or negative perceptions regarding, the Group, or have a negative effect on its relationship with current and prospective customers. Regulatory action could also result in regulators subjecting the Group to closer scrutiny than would otherwise be the case, which in turn may result in higher costs, sanctions or fees for the Group. This could have a material adverse effect on the business, financial results and financial condition of the Group and divert management's attention from the day-to-day management of its business.

The EU's Solvency II Directive came into effect on 1 January 2016. The Group is subject to the consolidated supervision of the PRA under UK rules and legislation implementing

Solvency II. PAC, Prudential Pensions Limited (“PPL”) and Prudential International Assurance plc (“PIA”) are also subject to regulation under Solvency II on a solo basis. The European Commission began a review in late 2016 of some aspects of the Solvency II legislative package, which is expected to continue until 2021 and includes a review of the Long Term Guarantee measures. Regulatory policy may further evolve under the Solvency II regime. The Group received approval on 11 October 2019 from the PRA to apply an internal model to the Group, with effect from the date of the Demerger. For as long as the Group remains subject to Solvency II, or any domestic regime implementing Solvency II, there is a risk that other changes may be required to the Group’s approved internal model or other Solvency II approvals. Such changes, or any delay or failure to obtain approval for such changes, could have a material impact on the Group Solvency II capital position, which may in turn have a material effect on the business of the Group.

Currently there are also a number of other global regulatory developments which could impact the Group’s businesses in the many jurisdictions in which it operates. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) in the US, the Insurance Distribution Directive, which came into effect on 1 October 2018, the EU PRIIPs Regulation, which came into effect on 1 January 2018, MiFID II and associated implementing measures, which came into effect on 3 January 2018, the GDPR which has applied to all EU member states from 25 May 2018, and equivalent regulations in other jurisdictions. In addition, regulators in a number of jurisdictions in which the Group operates are further developing local capital regimes, including potential future developments under Solvency II in the UK (as referred to above). There remains a high degree of uncertainty over the potential impact of these changes on the Group. In the UK, the domestication of EU law, regulation and supervisory competencies following the UK’s withdrawal from the EU may lead to significant changes to the UK legal and regulatory framework. It is possible that deficiencies in the domestication of EU law and regulation, or changes in the approach of UK regulators to enforcing domesticated law and regulation, could expose the Group to risk and uncertainty, and may have an adverse effect on the business of the Group.

The PRA has confirmed that the Group is neither a Global Systemically Important Insurer (“G-SII”) nor an Internationally Active Insurance Group (“IAIG”) as it does not meet the relevant criteria. The Issuer understands that it may be possible for it to be deemed an IAIG in 2020. If the Group is designated as an IAIG in the future, it could become subject to enhanced capital and other regulatory requirements, which could have an adverse effect on the business of the Group.

Consequently, the Holistic Framework, which the International Association of Insurance Supervisors agreed to adopt on 14 November 2019, with implementation from January 2020, will not currently apply to the Group. The FSB decided to suspend G-SII identification from January 2020 (with no new identifications to be made in 2019). It will then decide to discontinue or re-establish the G-SII identification in November 2022.

In the period up to the Holistic Framework being implemented, the relevant pre-Demerger Prudential Plc group-wide supervisors committed to continue applying existing enhanced supervisory policy measures applicable with some supervisory discretion on application of the requirement to produce systemic risk management plans. The Issuer was

requested by the PRA to produce a Recovery Plan and a Liquidity Risk Management Plan (which was also shared with the FCA).

There has in recent years been an increased focus in the UK and EU on the fair treatment of customers, in particular on the way in which the insurance industry and fund management industry sells and administers insurance policies, interests in investment funds and other products or services, including investment advice. UK rules implementing the Insurance Distribution Directive have applied since 1 October 2018, and the Group is subject to equivalent rules in the other EU member states in which it operates. The PRIIPs Regulation aims to harmonise pre-contractual disclosures and selling practices for packaged retail and insurance-based investment products, which has applied in the UK and EU since 1 January 2018. Furthermore, MiFID II also introduced extensive new rules on product disclosure and sales practices. There is a risk that these regimes and the rules or regulatory guidance introduced to implement them will restrict the Group's ability to distribute its products within the UK and EU and result in additional distribution and compliance costs, which could have a material adverse effect on its financial results, operations and costs or otherwise negatively impact its distribution arrangements. In the UK, the FCA continues to focus on the fair treatment of customers more generally, including in relation to the provision of investment advice.

More generally, conduct risk also remains the subject of close regulatory scrutiny across the UK financial services industry. There is an industry-wide risk that conduct-related issues could result in unexpected costs or losses for the Group.

On 27 July 2017, the FCA announced its intention to no longer persuade, or use its powers to compel, panel banks to submit rates for the calculation of the London Inter-bank Offered Rate ("LIBOR") after 2021. The discontinuation of LIBOR and other interbank offered rates in their current form and their expected replacement with alternative benchmark rates (such as the Sterling Overnight Index Average benchmark ("SONIA") that is expected to replace Sterling LIBOR in the UK) in the UK and other countries could, among other things, impact the Group through an adverse effect on the value of the Group's assets and liabilities which are linked to or which reference those rates, a reduction in market liquidity during any period of transition and increased costs and legal and conduct risks to the Group arising from changes required to documentation and its related obligations to its stakeholders.

Various jurisdictions in which the Group operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. Circumstances could arise in which the Group, along with other groups or companies, may be required to make such contributions, which could have an adverse effect on the business, results of operations and financial condition of the Group.

3.2 The resolution of several issues affecting the financial services industry could have a negative impact on the Group's business, financial condition, results of operations and prospects or on its relations with current and potential customers

The Group is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally, on matters relevant to the delivery of customer outcomes. Such actions may relate to the application of current regulations such as the FCA principles and conduct of business rules or the failure to implement new regulations. In the UK, any such issues or disputes arising in relation to private individuals are typically resolved by the Financial Ombudsman Service (the "FOS") or by litigation. The regulator may intervene directly, however, where larger groups or matters of public policy are concerned. These interventions could involve a review of types of business sold under past market practices, such as the requirement in the UK to provide redress to certain past purchasers of pensions and mortgage endowment policies, changes to the tax regime affecting products, and regulatory reviews of products sold and industry practices, including, in the latter case, lines of business it has closed. See *"The Group is exposed to conduct risk which could lead to unanticipated financial penalties, reputational damage and, in the case of regulatory enforcement action, the suspension or revocation of regulatory permissions, licences or approvals"* above.

As a result of TRASP, PAC is reviewing annuities sold without advice between 1 July 2008 and 30 September 2017 to its contract-based defined contribution pension customers, under the oversight of the FCA. The review is examining whether customers were given sufficient information about their potential eligibility for an enhanced annuity with PAC or another provider and about the possibility of obtaining a higher income from an enhanced annuity from another provider. PAC is in the process of contacting potentially affected customers and will provide redress, where appropriate. The Group has set aside £400 million to cover the costs of undertaking the review and any related redress. However, the ultimate amount that will be expended on the review will remain uncertain until the project is completed, and this provision could increase or decrease if the costs of undertaking the review or the population subject to redress increases or decreases. See *"The Group is exposed to conduct risk which could lead to unanticipated financial penalties, reputational damage and, in the case of regulatory enforcement action, the supervision or revocation of regulatory permissions, licences or approvals"* above for detail of the FCA investigation into PAC's historic non-advised annuity products.

Regulators may also focus on the approach that product providers use to select third-party distributors and to monitor the appropriateness of sales made by them. These interventions could involve a review of types of business sold under past market practices, changes to the tax regime affecting products, and regulatory reviews of products sold and industry practices, including, in the latter case, lines of business it has closed. Such interventions can, in turn, lead to enforcement action being taken against the firms concerned, or the implementation of consumer redress programmes, such as the requirement in the UK to provide redress to certain past purchasers of pensions and mortgage endowment policies. Any regulatory action arising out of the Group's position as a product provider could have an adverse impact on the Group's business, financial condition, results of operations and prospects, or otherwise harm its reputation.

3.3 The Group may fail to detect or prevent money laundering and other financial crime activities if financial crime risks are not correctly identified or if effective controls to mitigate such risks are not implemented, which could expose the Group to heavy fines, additional regulatory scrutiny and reputational harm

The Group is required to comply with applicable anti-money laundering (“AML”), anti-terrorism, sanctions, anti-bribery and corruption (“ABC”), insider dealing and other laws and regulations in the jurisdictions in which they operate, and has standards, policies and procedures in place to ensure that it does so. These laws and regulations require the Group, among other things, to conduct customer due diligence regarding sanctions and politically-exposed person screening, keep customer and supplier account and transaction information up to date and implement effective financial crime policies and procedures.

Financial crime has become the subject of enhanced regulatory scrutiny and supervision by regulators globally. AML, ABC and insider dealing and sanctions laws and regulations are increasingly complex and detailed and have become the subject of enhanced regulatory supervision, requiring improved systems, sophisticated monitoring and skilled compliance personnel.

Financial crime is continually evolving, and the expectations of regulators are increasing. This requires similarly proactive and adaptable responses from the Group so that it is able to effectively deter threats and criminality. Even known threats can never be fully eliminated, and there will be instances where the Group may be used by other parties to engage in money laundering and other illegal or improper activities. In addition, the Group also relies on its employees, partners, agents and external administrators to identify and report such activities. There is a risk that they will fail to do so or otherwise fail to comply with or implement the Group's policies and procedures relating to financial crime.

Where the Group is unable to comply with applicable laws, regulations and expectations, regulators and relevant law enforcement agencies have the ability and authority to impose significant fines and other penalties, including requiring a complete review of business systems, day-to-day supervision by external consultants and ultimately the revocation of regulatory authorisations and licences. The Group's financial position and reputation could suffer if it was found to have breached AML or ABC requirements or was unable to protect customers or prevent the business from being used by criminals for illegal or improper purposes.

While the Group has implemented comprehensive standards, policies and procedures designed to comply with ABC, AML and similar requirements, there remains a risk that such standards, policies and procedures are insufficient to prevent situations of financial crime, money laundering, bribery, fraud or corruption, including actions by the Group's employees, for which the Group might be held responsible. Any such event may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

3.4 The Group is subject to regulation regarding the use of personal customer data

The Group is subject to regulations in the jurisdictions in which it operates regarding the use of personal data. The Group collects and processes personal data from its customers, third party claimants, business contacts and employees as part of the operation of its business, and therefore it must comply with data protection and privacy laws. Those laws generally impose certain requirements on the Group in respect of the collection, retention, use and processing of such personal information. Notwithstanding its efforts, the Group is exposed to the risk that this data could be wrongfully appropriated, lost, disclosed, retained, stolen or processed in breach of data protection laws. In addition, the Group may not have the appropriate controls in place today and may in future fail to ensure such controls are current and keep pace with the growing threat. See *“The Group has a high dependency on technology to operate effectively and to meet the needs of its business, customers and clients, the failure of which could disrupt the Group’s business functions and have a negative impact on its business, financial condition, results of operations and prospects”* above. Failure to operate effective data collection controls could potentially lead to regulatory censure, fines, reputational and financial costs as well as result in potential inaccurate rating of policies or overpayment of claims.

The GDPR introduced the potential for significant new levels of fines for non-compliance based on turnover. The Group will continue to review and develop existing processes to ensure that customer personal data is processed in compliance with the GDPR’s requirements, to the extent that they are applicable, and it may be required to expend significant capital or other resources and/or modify its operations to meet such requirements, any or a combination of which could have a material adverse effect on the Group’s business, financial condition and financial results, or otherwise harm its reputation.

3.5 Changes in accounting standards in the markets in which the Group operates may impact the Group’s profit recognition and profitability

The Group’s accounts are prepared in accordance with current IFRS applicable to the insurance industry.

The International Accounting Standards Board (“IASB”) introduced a framework under standard IFRS 4 which, permits insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In May 2017, the IASB published its replacement standard on insurance accounting (IFRS 17, ‘Insurance Contracts’), which will have the effect of introducing fundamental changes to how insurance contracts are accounted for, and therefore to the statutory reporting of insurance entities that prepare accounts according to IFRS from 2021. In June 2019, the IASB published an exposure draft proposing a number of targeted amendments to this new standard, including the deferral of the effective date by one year from 2021 to 2022. The comment deadline for the exposure draft was 25 September 2019. At a meeting in November 2019, the IASB decided to redeliberate some of the matters raised by respondents and confirm proposed amendments at a future meeting. The EU will apply its usual process for assessing whether the standard meets the necessary criteria for endorsement, but there is some uncertainty as to how this

endorsement will impact companies in the UK due to UK's withdrawal from the EU. The Group is reviewing the complex requirements of this standard and considering its potential impact. The effect of changes required to the Group's accounting policies as a result of implementing the new standard is currently being considered, but these changes can be expected to, amongst other things, alter the timing of IFRS profit recognition. Given the implementation of this standard is likely to require significant enhancements to IT, actuarial and finance systems of the Group, it will also have an impact on the Group's expenses.

Any changes or modification of IFRS accounting policies, including those described above, may require a change in the way in which future results will be determined and/or a retrospective adjustment of reported results to ensure consistency.

3.6 Changes in tax legislation may impact the demand for the Group's products or otherwise may result in adverse tax consequences for the Group's business, financial condition, results of operations and prospects

Tax rules, including those relating to the insurance industry, and their interpretation may change, possibly with retrospective effect, in any of the jurisdictions in which the Group operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect the Group's business, financial condition, results of operations and prospects.

4. RISKS RELATING TO THE NOTES - RISKS RELATED TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES

A range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

4.1 If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return

An optional or early redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate.

In respect of Tier 2 Notes, if such Notes are redeemed at the Issuer's option, such Notes shall be redeemed on any Optional Redemption Date at their Optional Redemption Amount together with any accrued interest to the Redemption Date and the aggregate amount of any Arrears of Interest.

Early redemption of the Notes will also be permitted for taxation reasons as described in the relevant Terms and Conditions of the Notes. In addition, early redemption of Tier 2 Notes will be permitted for regulatory reasons or following a Rating Event, each as described in the Terms and Conditions of the Tier 2 Notes.

In respect of Tier 2 Notes, if such Notes are redeemed (i) upon the occurrence of a Par Tax Event or a Rating Event at any time or a Regulatory Event on or after the Optional Redemption Date, the Notes may be redeemed at the outstanding principal amount of the Notes, (ii) upon the occurrence of a Regulatory Event prior to the Optional Redemption Date, the Notes may be redeemed at the outstanding principal amount of the Notes or at their Make Whole Redemption Price, as specified in the applicable Final Terms, or (iii) upon the occurrence of an Other Tax Event, the Notes may be redeemed on or after the Optional Redemption Date at the outstanding principal amount of the Notes or at their Make Whole Redemption Price, as specified in the applicable Final Terms, together, in each case, with accrued interest to the Redemption Date and the aggregate amount of any Arrears of Interest.

In the case of Tier 2 Notes in respect of which the Tax Event Redemption, Tax Event Redemption and Refinancing Option, Regulatory Event Redemption and Regulatory Event Refinancing Option is specified in the applicable Final Terms, the Issuer may, at any time upon the occurrence of a Tax Event or Regulatory Event (as applicable), also substitute the Notes, in whole but not in part, for or vary their terms and conditions and/or the terms of the Trust Deed such that they are treated as an issue of Qualifying Tier 2 Capital in accordance with the procedures specified in Condition 13.8 of the Terms and Conditions of the Tier 2 Notes, respectively. See further the risk factor entitled “*The Terms and Conditions of the Notes contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Holders and without regard to the individual interests of particular Holders*” below.

Investors should note that Notes issued which are not eligible to qualify as Tier 2 Own Funds or Tier 2 Capital and/or are issued with terms which do not comply with the applicable rules relating to Solvency II may be immediately subject to the applicable redemption, variation or substitution rights of the Issuer, as specified in the applicable Final Terms. There is no requirement that such event(s) may only arise as a result of a change in law after the date on which agreement is reached to issue the Notes. The amount payable to investors on redemption of the Notes in such circumstances will be set out in the applicable Final Terms and may not be fully compensatory.

Potential investors should consider reinvestment risk in light of other investments available at that time.

4.2 Undated Notes have no scheduled maturity and Noteholders have only a limited ability to exit their investment in such Notes

Undated Notes are issued with no scheduled maturity date. The Issuer is under no obligation to redeem such Notes and the Holders have no right to call for their redemption (save as permitted pursuant to the applicable Final Terms, if at all).

Therefore, Holders have no ability to exit their investment, except (i) in the event of the Issuer exercising its right to redeem the Notes in accordance with the Conditions, (ii) by selling their Notes or (iii) upon a winding-up of the Issuer, in which limited circumstances the Noteholders may receive some of any resulting liquidation proceeds following payment being made in full to all senior and more senior subordinated creditors. The proceeds, if any, realised as a result of any of the actions described in (i) to (iii) may be substantially less than the principal amount of such Notes or the price paid by an investor for the Notes.

4.3 The Issuer's obligations under Tier 2 Notes are subordinated

The Issuer's obligations under Tier 2 Notes will be unsecured and subordinated and will rank junior in priority to the claims of more senior ranking creditors of the Issuer. Although Tier 2 Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Tier 2 Notes will lose all or some of its investment should the Issuer become insolvent.

4.4 Deferral of payments

All payments on Tier 2 Notes, their respective Coupons or under the Trust Deed relating to them or arising therefrom (other than certain payments made to the Trustee in accordance with the Trust Deed) are conditional upon: (i) the Issuer satisfying the Solvency Condition both at the time of, and immediately after, any such payment; (ii) unless otherwise permitted by the PRA, both the Solvency Capital Requirement and the Minimum Capital Requirement being met both at the time of, and immediately after, any such payment; and (iii) (in relation to Tier 2 Notes to which Insolvent Insurer Winding-up Condition is specified in the Final Terms to apply) unless otherwise permitted by the PRA, no Insolvent Insurer Winding-up being continuing at the time for such payment..

The Issuer may specify in the applicable Final Terms that the Tier 2 Notes are subject to Optional Interest Deferral or Capital Adequacy Condition Deferral.

In relation to Tier 2 Notes to which Optional Interest Deferral is specified in the Final Terms to apply, the Issuer may (save where the Dividend and Capital Restriction is specified to apply to the Tier 2 Notes, as further described below), by giving notice to the Trustee, the Issue and Paying Agent and the Holders of the Notes, elect to defer the payment of interest on any Interest Payment Date, provided that the Issuer may not give such notice if, at the time such notice is proposed to be given, a Regulatory Event has occurred and has been subsisting at such time for a continuous period of 180 days or more. If a Regulatory Event has occurred and has been subsisting at such for a continuous period of 180 days or more at the time such notice is proposed to be given, the Issuer will not have the right to elect to defer interest on Tier 2 Notes to which Optional Interest Deferral is specified to apply (although the mandatory deferral requirements will continue to apply).

In relation to Tier 2 Notes to which Capital Adequacy Condition Deferral is specified in the Final Terms to apply, the Issuer may (save where the Dividend and Capital Restriction is specified in the Final Terms to apply to the Tier 2 Notes, as further described below) elect to defer the payment of interest on the Tier 2 Notes on any Interest Payment Date on

which the Issuer determines at its sole discretion (by reference to the Issuer's then current financial condition) that the Capital Adequacy Condition will not be met both at the time of and immediately after making the relevant interest payment.

Any amounts of interest not paid on an Interest Payment Date for the reasons described above shall, so long as they remain unpaid, constitute Arrears of Interest. No interest will accrue on Arrears of Interest. At the option of the Issuer, but subject to satisfying the Solvency Condition, the Solvency Capital Requirement and the Minimum Capital Requirement at the time of such payment and immediately thereafter unless otherwise determined by the PRA, Arrears of Interest may be settled by the Issuer at any time and shall otherwise become payable in full on redemption of the Tier 2 Notes, on purchase of the Tier 2 Notes by or on behalf of the Issuer or upon commencement of the winding-up of the Issuer.

If "Dividend and Capital Restriction" is specified to apply to the Tier 2 Notes in the applicable Final Terms, the Issuer may not elect to defer the payment of interest on any Interest Payment Date which is a Compulsory Interest Payment Date (although the mandatory deferral requirements will continue to apply).

A "Compulsory Interest Payment Date" for this purpose means any Interest Payment Date on which: (i) the Issuer satisfies the Solvency Condition, both the Solvency Capital Requirement and the Minimum Capital Requirement are met, in each case, both at the time of, and immediately after, making the relevant interest payment; and (ii) the Issuer has, in the six calendar months immediately preceding such Interest Payment Date, declared or paid any dividend on any class of its share capital.

Any actual or perceived likelihood of deferral of any payment can be expected to have a material adverse effect on the market price of the Notes. Investors in the Notes may find it difficult to sell their Notes in such circumstances, or may only be able to sell their Notes at a price which may be significantly lower than the price at which they purchased their Notes. In such a sale, investors may lose some or substantially all of their investment in the Notes. In addition, as a result of the deferral provisions of the Notes, the market price of the Notes may be more volatile than the market prices of other securities or instruments that do not permit or require deferral of payments, and may be more sensitive generally to adverse changes in the Issuer's financial condition.

See also the risk factor entitled "*Restricted remedy for non-payment*" below.

4.5 Restricted remedy for non-payment

In accordance with current PRA requirements for subordinated capital, the sole remedy against the Issuer available to the Trustee (on behalf of the Holders of Tier 2 Notes) or, where the Trustee has failed to proceed against the Issuer as provided in the Terms and Conditions of the Tier 2 Notes, any Holder of Tier 2 Notes for recovery of amounts owing in respect of such Notes and Coupons will be the institution of proceedings for the winding-up of the Issuer and/or proving in such winding-up and/or claiming in the liquidation of the Issuer for such amounts. In particular, a deferral of payments as

described above shall not constitute a default under the Notes or the Conditions of the Tier 2 Notes for any purpose, including enforcement action against the Issuer.

See also the risk factor entitled “*Deferral of payments*” above.

4.6 If the Notes include a feature to convert the interest basis from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned

Fixed/Floating Rate Notes are Notes which bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Such a feature to convert the interest basis, and any conversion of the interest basis, may affect the secondary market in, and the market value of, such Notes as the change of interest basis may result in a lower interest return for Holders. Where the Notes convert from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate.

In addition, the new floating rate at any time may be lower than the rates on other Notes. Where the Notes convert from a floating rate to a fixed rate, the fixed rate applicable to the Fixed/Floating Rate Notes may be lower than then prevailing rates on those Notes and could affect the market value of an investment in the relevant Notes.

See also the risk factors entitled “*The value of Fixed Rate Notes may be adversely affected by movements in market interest rates*” and “*The regulation and reform of “benchmarks” may adversely affect the value of Notes linked to or referencing such “benchmarks”*” below.

4.7 The interest rate on Reset Notes will reset on each Reset Date, which can be expected to affect the interest payment on an investment in Reset Notes and could affect the market value of Reset Notes

Reset Notes will initially earn interest at the Initial Rate of Interest until (but excluding) the Reset Date (or, if there is more than one Reset Period, the first Reset Date). On the first Reset Date, however, and on each subsequent Reset Date (if any) thereafter, the interest rate will be reset to the sum of the applicable Subsequent Reset Reference Rate and the applicable Reset Margin as determined by the Issue and Paying Agent on the relevant Reset Determination Date (each such interest rate, a “Subsequent Reset Rate”). The Subsequent Reset Rate for any Reset Period could be less than Initial Rate of Interest or the Subsequent Reset Rate for prior Reset Periods and could affect the market value of an investment in the Reset Notes.

See also the risk factor entitled “*The regulation and reform of “benchmarks” may adversely affect the value of Notes linked to or referencing such “benchmarks”*” below.

4.8 The value of Fixed Rate Notes may be adversely affected by movements in market interest rates

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

4.9 Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

4.10 The Issuer's obligation, if any, to pay additional amounts in respect of any deduction or withholding in respect of taxes imposed in the United Kingdom under the terms of the Tier 2 Notes applies only to interest payments and not to payments of principal

The Issuer would not be required to pay any additional amounts under the terms of the Tier 2 Notes to the extent any deduction or withholding in respect of taxes imposed in the United Kingdom applied to payments of principal thereunder. Accordingly, if any such deduction or withholding were to apply to any payments of principal under the Tier 2 Notes, Holders would receive less than the full amount that would otherwise be due to them under the Tier 2 Notes, and the market value of the Tier 2 Notes may be adversely affected as a result.

4.11 Changes to Solvency II may increase the risk of deferral of payments of interest or principal or the occurrence of a Regulatory Event in relation to Tier 2 Notes

Solvency II requirements adopted in the UK may change, whether as a result of further changes to Solvency II or changes to the way in which the PRA interprets and applies these requirements to the UK insurance industry. Any such changes, either individually and/or in aggregate, may lead to further unexpected requirements in relation to the calculation of the Issuer's or the Group's Solvency Capital Requirement or Minimum Capital Requirement, and such changes may make the Issuer's or the Group's capital adequacy requirements more onerous. Such changes that may occur in the application of Solvency II in the UK subsequent to the date of this Prospectus and/or any subsequent changes to such rules and other variables may individually and/or in aggregate negatively affect the calculation of the Issuer's or the Group's Solvency Capital Requirement or Minimum Capital Requirement and thus increase the risk of deferral of payments of

interest or principal, the occurrence of a Regulatory Event and subsequent redemption of the Notes by the Issuer. See also the risk factors entitled *“If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return”* above and *“The value of the Notes could be adversely affected by a change in English law or administrative practice”* below.

4.12 The regulation and reform of “benchmarks” may adversely affect the value of Notes linked to or referencing such “benchmarks”

Interest rates and indices which are deemed to be “benchmarks” (such as, in the case of Floating Rate Notes, an Original Reference Rate, or, in the case of Reset Notes, a Mid Swap Rate), are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such a “benchmark”. The Benchmarks Regulation was published in the Official Journal of the European Union on 29 June, 2016 and has applied, subject to certain transitional provisions, from 1 January, 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of “benchmarks” of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes linked to or referencing a “benchmark”, in particular, if the methodology or other terms of the “benchmark” are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant “benchmark”.

More broadly, any of the national or international reforms, or the general increased regulatory scrutiny of “benchmarks”, could increase the costs and risks of administering or otherwise participating in the setting of a “benchmark” and complying with any such regulations or requirements. Such factors may have (without limitation) the following effects on certain “benchmarks”: (i) discouraging market participants from continuing to administer or contribute to a “benchmark”; (ii) triggering changes in the rules or methodologies used in the “benchmark” and/or (iii) leading to the disappearance of the “benchmark”. Any of the above changes or any other consequential changes as a result of national or international reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to, referencing or otherwise dependent (in whole or in part) upon a “benchmark”.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation or any of the

international or national reforms in making any investment decision with respect to any Notes linked to or referencing a “benchmark”.

4.13 Future unavailability, discontinuance or unrepresentativeness of certain benchmark rates (for example, LIBOR or EURIBOR) may adversely affect the value of and return on Floating Rate Notes and/or Reset Notes which are linked to or which reference any such benchmark rate

The sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and the possible disincentives (including possibly as a result of benchmark reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, and confirmed in a subsequent speech on 12 July 2018 the Chief Executive of the FCA, which regulates LIBOR, announced that it will no longer persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR after 2021 (the “FCA Announcement”). The FCA Announcement indicates that the continuation of LIBOR, at least on the current basis, is not guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR once the FCA ceases to persuade, or compel, such panel banks to do so. Beyond 2021, to the extent that LIBOR continues to be administered, LIBOR may perform differently than it did in the past, and potentially cease to be representative of LIBOR as calculated at the date of any issuance, and there could be other consequences that cannot be predicted.

In addition, on 29 November 2017, the Bank of England and the FCA announced that, from January 2018, its Working Group on Sterling Risk-Free Rates has been mandated with implementing a broad-based transition to SONIA over the next four years across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021.

Separate workstreams are also underway in Europe to reform EURIBOR using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate). On 13 September 2018, the working group on euro risk-free rates recommended Euro Short-term Rate (“€STR”) as the new risk free rate. The European Central Bank published €STR for the first time on 2 October 2019. In addition, on 21 January 2019, the euro risk free-rate working group published a set of guiding principles for fallback provisions in new euro denominated cash products (including bonds). The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro area financial system.

It is not possible to predict with certainty whether, and to what extent, benchmarks will continue to be supported going forwards. This may cause certain benchmarks to perform differently than they have done in the past, and may have other consequences which cannot be predicted. Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national

reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to, referencing, or otherwise dependent (in whole or in part) upon, a benchmark.

Investors should be aware that if LIBOR, EURIBOR or any other benchmark, among other things, were discontinued or otherwise unavailable, or was officially determined to have ceased to be representative, the rate of interest on Floating Rate Notes and Reset Notes which are linked to or which reference such benchmark will be determined for the relevant period by the fallback provisions applicable to such Notes. The Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a published benchmark, such as LIBOR or EURIBOR (including any page on which such benchmark may be published (or any successor service)) becomes unavailable. These fallback arrangements may require or result in adjustments to the interest calculation provisions of the Terms and Conditions of the Notes. Even prior to the implementation of any changes to any benchmark, or to the interest calculation provisions based on such benchmark, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect the operation of such benchmark during the term of the relevant Notes, as well as potentially adversely affecting both the return on any Notes which are linked to or which reference such benchmark and the trading market for such Notes.

In certain situations, including the relevant benchmark ceasing to be administered, where (i) in the case of Floating Rate Notes, Reference Rate Replacement is specified in the applicable Final Terms as being applicable and Screen Rate Determination is specified in the applicable Final Terms as the manner in which the rate of interest is to be determined or (ii) in the case of Reset Notes, Mid Swap Rate Replacement is specified in the relevant Final Terms as being applicable (in each case, any such Notes being "Relevant Notes"), the fallback arrangements referenced in the preceding paragraph will include the possibility that:

- (A) the relevant rate of interest (or, as applicable, a component thereof) could be set or, as the case may be, determined by reference to a successor rate or an alternative rate (as applicable) determined by an Independent Adviser or, if the Issuer is unable to appoint an Independent Adviser or the Independent Adviser appointed by the Issuer fails to make such determination, the Issuer; and
- (B) such successor rate or alternative rate (as applicable) will be adjusted by the relevant Independent Adviser or the Issuer (as applicable) (in the case of Floating Rate Notes) in order to follow a formal recommendation by a Relevant Nominating Body or, in the absence of such recommendation, customary practice in international debt capital markets transactions or over-the-counter derivatives transactions or (in the case of Reset Notes) in order to take account of any adjustment factor to make such rate comparable to rates quoted on the basis of the Mid Swap Rate being replaced (in each case, with such adjustment being positive, negative or zero),

in each such case, with the Independent Adviser or Issuer (as applicable) acting in good faith and in a commercially reasonable manner, as more fully described in the Terms and Conditions of the Notes.

No consent of the Holders shall be required in connection with effecting any successor rate or alternative rate (as applicable). In addition, no consent of the Holders shall be required in connection with any other related adjustments and/or amendments to the Terms and Conditions of the Notes (or any other document) which are made in order to effect any successor rate or alternative rate (as applicable).

In certain circumstances, the ultimate fallback for a particular Interest Period or Reset Period (as applicable), including where no successor or alternative rate (as applicable) is determined, may be that the rate of interest for the last preceding Interest Period or Reset Period (as applicable) is used for the following Interest Period or Reset Period (as applicable). This may result in the effective application of a fixed rate for Floating Rate Notes or Reset Notes (as applicable) based on the rate which was last observed on the applicable screen page. In addition, due to the uncertainty concerning the availability of successor rates and alternative rates and the involvement of an Independent Adviser, the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Notes or Reset Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes or Reset Notes. Investors should note that, in the case of Relevant Notes, the relevant Independent Adviser or the Issuer (as applicable) will have discretion to adjust the relevant successor rate or alternative rate (as applicable) in the circumstances described above. Any such adjustment could have unexpected commercial consequences and there can be no assurance that, due to the particular circumstances of each Holder, any such adjustment will be favourable to each Holder.

Investors should consider all of these matters when making their investment decision with respect to the relevant Floating Rate Notes or Reset Notes.

4.14 The market continues to develop in relation to SONIA and the Secured Overnight Financing Rate (“SOFR”) as reference rates for Floating Rate Notes

Investors should be aware that the market continues to develop in relation to SONIA and SOFR as reference rates in the capital markets and their adoption as an alternative to sterling LIBOR and U.S. dollar LIBOR, respectively. In particular, market participants and relevant working groups are exploring alternative reference rates based on SONIA and SOFR, including term SONIA or SOFR reference rates (which seek to measure the market’s forward expectation of an average SONIA or SOFR rate over a designated term).

SOFR is published by the Federal Reserve Bank of New York (the “Federal Reserve”) and is intended to be a broad measure of the cost of borrowing cash overnight collateralised by Treasury securities and a current preferred replacement rate to U.S.

dollar LIBOR. The future performance of SOFR cannot be predicted based on its historical performance. The level of SOFR over the term of Floating Rate Notes may bear little or no relation to the historical level of SOFR. Prior observed patterns, if any, in the behaviour of market variables, such as correlations, may change in the future. While some pre-publication hypothetical performance data have been published by the Federal Reserve, such data inherently involve assumptions, estimates and approximations. The future performance of SOFR is impossible to predict and therefore no future performance of SOFR or Floating Rate Notes linked to or which reference a SOFR rate may be inferred from any of the hypothetical or actual historical performance data. Hypothetical or actual historical performance data are not indicative of, and have no bearing on, the potential performance of SOFR or Floating Rate Notes linked to or which reference a SOFR rate.

The market or a significant part thereof may adopt an application of SONIA and/or SOFR that differs significantly from that set out in the Terms and Conditions of the Notes. As each of SONIA and SOFR is published and calculated by third parties based on data received from other sources, the Issuer has no control over their respective determinations, calculations or publications. There can be no guarantee that SONIA and/or SOFR will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of investors in Floating Rate Notes linked to or which reference a SONIA rate or a SOFR rate (or that any applicable benchmark fallback provisions provided for in the Terms and Conditions of the Notes will provide a rate which is economically equivalent for Holders). Neither the Bank of England nor the Federal Reserve has an obligation to consider the interests of Holders in calculating, adjusting, converting, revising or discontinuing SONIA or SOFR, respectively. If the manner in which SONIA and/or SOFR is calculated is changed, that change may result in a reduction of the amount of interest payable on such Notes and the trading prices of such Notes. Furthermore, the Rate of Interest payable on Floating Rate Notes which reference a SONIA rate or a SOFR rate is only capable of being determined at the end of the relevant Interest Period and shortly prior to the relevant Interest Payment Date. It may therefore be difficult for investors in Floating Rate Notes which reference a SONIA rate or a SOFR rate to reliably estimate the amount of interest which will be payable on such Notes. Further, in contrast to LIBOR-based Notes, if Notes referencing SONIA or SOFR become due and payable as a result of an Event of Default under (in the case of Senior Notes) Condition 10, or (in the case of Tier 2 Notes) Condition 16, are otherwise redeemed early on a date which is not an Interest Payment Date, the final Rate of Interest payable in respect of such Notes shall only be determined immediately prior to the date on which the Notes become due and payable.

Investors should also be aware that the manner of adoption or application of SONIA or SOFR as reference rates in the international debt capital markets may differ materially compared with the application and adoption of SONIA and SOFR in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SONIA or SOFR as reference rates across these markets may impact any hedging or other arrangements which they may put in place in connection with any acquisition, holding or disposal of Floating Rate Notes linked to or which reference a SONIA rate or a SOFR rate.

Since SONIA and SOFR are relatively new market indices (with publication of SOFR having only commenced on 3 April 2018, for example), Floating Rate Notes linked to or which reference a SONIA rate or a SOFR rate may have no established trading market when issued, and an established trading market may never develop or may not be very liquid. Market terms for debt securities linked to or which reference a SONIA rate or a SOFR rate may evolve over time and trading prices of such Notes may be lower than those of the later issued Notes that are linked to or which reference a SONIA rate or a SOFR rate as a result. Further, if SONIA or SOFR do not prove to be widely used in securities like the Notes, the trading price of Floating Rate Notes linked to or which reference a SONIA rate or a SOFR rate may be lower than those of Notes linked to or which reference indices that are more widely used. Investors in such Notes may not be able to sell such Notes at all or may not be able to sell such Notes at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk.

Investors should consider these matters when making their investment decision with respect to any such Floating Rate Notes linked to or which reference a SONIA rate or a SOFR rate.

5. RISKS RELATING TO THE NOTES - RISKS RELATED TO NOTES GENERALLY

Set out below is a description of material risks relating to the Notes generally:

5.1 Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an investment in those Notes

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to certain exceptions. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). If the status of a rating agency rating the Notes changes, European regulated investors may no longer be able to use the rating for regulatory purposes and Notes may have a different regulatory treatment. This may result in European regulated investors selling the Notes which may have an impact on the Notes and any secondary market. The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be

delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

Certain information with respect to the credit rating agencies and ratings is set out on the front page and pages 10, 18 and 222 of this Prospectus and will be disclosed in the Final Terms.

5.2 The Terms and Conditions of the Notes contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Holders and without regard to the individual interests of particular Holders

The Terms and Conditions of the Notes contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Holders and without regard to the interests of particular Holders: (i) agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes; or (ii) determine that (a) in the case of Tier 2 Notes, any Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such or (b) in the case of Senior Notes, any Event of Default or Potential Event of Default shall not be treated as such; or (iii) agree to the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 15 of the Terms and Conditions of the Senior Notes or, as the case may be, Condition 21 of the Terms and Conditions of the Tier 2 Notes.

The Conditions contain provisions which provide for the replacement of certain reference rates or mid-swap rates, pursuant to which the Trustee and the Issue and Paying Agent, without the consent of Holders, shall agree to any modifications to the Trust Deed, the Agency Agreement, the Conditions and any other documents required to give effect to such Reference Rate Replacement, as directed by the Issuer. The Trustee shall not be obliged to agree to any modification which would impose more onerous obligations upon it or expose it to additional duties or liabilities.

5.3 The value of the Notes could be adversely affected by a change in English law or administrative practice

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes and any such change could materially adversely impact the value of any Notes affected by it.

See also the risk factor entitled “*Changes to Solvency II may increase the risk of deferral of payments of interest or principal or the occurrence of a Regulatory Event in relation to*

Tier 2 Notes” above for a description of the risks associated specifically with changes to Solvency II in the context of Tier 2 Notes.

5.4 Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and may adversely affected if definitive Notes are subsequently required to be issued

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a Holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in its account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a Holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in its account with the relevant clearing system at the relevant time may not receive a Definitive Bearer Note or Definitive Registered Note (as applicable) in respect of such holding (should Definitive Bearer Notes or Definitive Registered Notes be printed) and would need to purchase a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

If Definitive Bearer Note or Definitive Registered Note (as applicable) are issued, Holders should be aware that Definitive Bearer Notes or Definitive Registered Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

5.5 No limitation on issuing senior or *pari passu* securities

There is no restriction on the amount of securities which the Issuer may issue and which may rank senior to, or *pari passu* with, the Notes. The issue of any such securities may reduce the amount recoverable by holders of the Notes on a winding-up of the Issuer and/or may increase the likelihood of a deferral of payments under the Tier 2 Notes (as applicable). See also the risk factors entitled “*Deferral of payments*” and “*Restricted remedy for non-payment*” above for a description of the risks associated with the payment deferral provisions applicable to the Tier 2 Notes.

5.6 An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell its Notes

Notes may have no established trading market when issued, and one may never develop (for example, Notes may be allocated to a limited pool of investors). If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable with similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific

investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have an adverse effect on the market value of Notes.

5.7 If an investor holds Notes which are not denominated in the investor's home currency, it will be exposed to movements in exchange rates adversely affecting the value of its holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (i) the Investor's Currency equivalent yield on the Notes; (ii) the Investor's Currency equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency equivalent market value of the Notes.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or sections of documents), which have previously been published or are published simultaneously with this Prospectus, shall be deemed to be incorporated in, and to form part of, this Prospectus:

- (1) the section entitled “*Part I (Business and Market Overview)*” on pages 40 to 63 (inclusive) of the Issuer’s equity prospectus dated 25 September 2019 (the “Equity Prospectus”);
- (2) the section entitled “*Schedule 1 (Definitions and Glossary)*” on pages 178 to 188 (inclusive) of the Equity Prospectus, but only to the extent that any terms defined therein are used but not otherwise defined in the pages incorporated by reference at (1) above; and
- (3) the annual report and financial statements of the Issuer for the period from the incorporation of the Issuer to 31 December 2018 (the “2018 Annual Report”),

save that any statement contained in this Prospectus or in any of the documents incorporated by reference in, and forming part of, this Prospectus may be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Any documents and/or information themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus. Any non-incorporated parts of a document referred to herein are either not relevant for an investor or are otherwise covered elsewhere in this Prospectus.

Where reference is made to a website in this Prospectus, the contents of that website do not form part of this Prospectus.

The Equity Prospectus is accessible at: <https://global.mandg.com/~media/Files/M/MandG-Prudential/documents/investors/shareholders/prospectus.pdf>.

The 2018 Annual Report is accessible at:
<https://beta.companieshouse.gov.uk/company/11444019/filing-history?page=1>

TERMS AND CONDITIONS OF SENIOR NOTES

The following, except for paragraphs in italics (which are in the nature of explanatory notes and do not form part of the Terms and Conditions of the Senior Notes), are the Terms and Conditions of the Senior Notes (the “Notes”) which, as completed in accordance with the provisions of Part A of the applicable Final Terms, will be applicable to each Tranche of Notes. Either: (i) the full text of these Terms and Conditions together with the relevant provisions of Part A of the Final Terms; or (ii) these Terms and Conditions as so completed, shall be endorsed on the Bearer Notes (as defined below) or on the certificates relating to the Registered Notes (as defined below). Certain provisions relating to such Notes while in global form, and certain modifications of these Terms and Conditions applicable to such Notes while in global form, are described in the section entitled “Provisions relating to the Notes while in Global Form”.

This Note is issued by M&G plc (the “Issuer”) and is one of a Series (as defined below) of Notes constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the “Trust Deed”) dated 20 December 2019 and made between the Issuer and The Law Debenture Trust Corporation p.l.c. as trustee (the “Trustee”, which expression shall include any successor trustee) for the Holders (as defined below) of such Notes. References herein to the “Notes” shall be references to the Notes of this Series. As used herein, “Tranche” means Notes which are identical in all respects (including as to listing) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are: (i) expressed to be consolidated and form a single Series; and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Notes and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as modified and/or supplemented and/or restated from time to time, the “Agency Agreement”) dated 20 December 2019 and made between the Issuer, Citibank, N.A., London Branch as issuing and principal paying agent and agent bank (the “Issue and Paying Agent”, which expression shall include any successor agent), Citibank, N.A., London Branch as registrar in respect of Notes in registered form and as paying agent (the “Registrar”, which expression shall include any successor registrar and, together with the Issue and Paying Agent, unless the context otherwise requires, the “Paying Agents”, which expression shall include any additional or successor paying agents) and the Trustee.

The Final Terms for this Note (or the relevant provisions thereof) are attached to or endorsed on this Note and complete these Terms and Conditions (these “Conditions”) for the purposes of this Note. References to the “Final Terms” are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Copies of the Trust Deed and the Agency Agreement are available for inspection on weekdays during normal business hours at the registered office of the Issuer, the registered office for the time being of the Trustee (being at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified office of the Issue and Paying Agent. Copies of the Final Terms are available for viewing on weekdays during normal business hours at the registered office for the time being of the Issuer, the registered office for the time being of the Trustee and at the specified office of the Issue and Paying Agent. In addition, copies of each Final Terms relating to Notes which are admitted to trading on the London Stock Exchange’s regulated market will be published on the website of the London Stock Exchange through a regulatory information service. Copies of each Final Terms

relating to Notes which are admitted to trading on any other regulated market in the European Economic Area will be published in accordance with Article 21(2) of Regulation (EU) 2017/1129 and the rules and regulations of the relevant regulated market. The Holders are deemed to have notice of, are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, the Agency Agreement and the Final Terms which are applicable to them. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed.

Words and expressions defined in the Trust Deed or the Agency Agreement or used in the Final Terms shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the Final Terms, the Final Terms will prevail.

1. FORM AND DENOMINATION

1.1 Form

Notes are issued in bearer form ("Bearer Notes") or in registered form ("Registered Notes"), as specified in the Final Terms, serially numbered and in the currency (the "Specified Currency") and the denomination(s) (the "Specified Denomination(s)") specified in the Final Terms provided that in the case of Notes which are to be admitted to trading on a regulated market within the European Economic Area the minimum Specified Denomination shall be €1,000 (or its equivalent in any other currency as at the date of issue of the relevant Note). Registered Notes are not exchangeable for Bearer Notes or vice versa. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

1.2 Coupons and Talons

Interest-bearing definitive Bearer Notes have attached thereto, at the time of their initial delivery, coupons ("Coupons"), presentation of which will be a prerequisite to the payment of interest save in certain circumstances specified herein. In addition, such Notes may have attached thereto, at the time of their initial delivery, a talon ("Talon") for further coupons and the expression "Coupons" shall, where the context so requires, include Talons. If this Note is a Zero Coupon Note, references to Coupons and Couponholders in these Conditions are not applicable.

1.3 Interest Basis

This Note may be a Fixed Rate Note, a Floating Rate Note (which term shall include an EONIA Linked Interest Note, a SONIA Linked Interest Note, a Federal Funds Rate Linked Interest Note, a CMS Linked Interest Note, a Compounded Daily SOFR Linked Interest Note or a Weighted Average SOFR Linked Interest Note if this Note is specified as such in the Final Terms), a Zero Coupon Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the Final Terms.

1.4 Denomination of Bearer Notes

Bearer Notes are in the Specified Denomination or Denominations specified in the Final Terms.

1.5 Denomination of Registered Notes

Registered Notes are in the minimum Specified Denomination or Denominations specified in the Final Terms or integral multiples thereof.

1.6 Currency of Notes

The Notes are denominated in the Specified Currency specified in the Final Terms. Any currency may be so specified, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

2. TITLE AND TRANSFER

2.1 Title to Bearer Notes

Title to Bearer Notes and Coupons passes by delivery. References herein to the “Holders” in relation to Bearer Notes or Coupons are to the bearers of such Bearer Notes or such Coupons.

2.2 Title to Registered Notes

Title to Registered Notes passes by registration in the register which the Issuer shall procure to be kept by the Registrar. References herein to the “Holders” in relation to Registered Notes are to the persons in whose names such Registered Notes are so registered in the relevant register.

2.3 Holder as Owner

The Holder of any Bearer Note, Coupon or Registered Note will (except as otherwise required by applicable law or regulatory requirement) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest thereof or therein, any writing thereon or any theft or loss thereof) and no person shall be liable for so treating such Holder.

2.4 Transfer of Registered Notes

A Registered Note may, upon the terms and subject to the conditions set forth in the Agency Agreement, be transferred in whole or in part only (provided that such part is, or is an integral multiple of, the minimum Specified Denomination specified in the Final Terms) upon the surrender of the Registered Note to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar. A new Registered Note will be issued to the transferee and, in the case of a

transfer of part only of a Registered Note, a new Registered Note in respect of the balance not transferred will be issued to the transferor.

2.5 New Registered Notes

Each new Registered Note to be issued upon the transfer of a Registered Note will, within five Relevant Banking Days of the transfer date, be available for collection by each relevant Holder at the specified office of the Registrar or, at the option of the Holder requesting such transfer, be mailed (by uninsured post at the risk of the Holder(s) entitled thereto) to such address as may be specified by such Holder. For these purposes, a form of transfer received by the Registrar after the Record Date (as defined in Condition 6.4) in respect of any payment due in respect of Registered Notes shall be deemed not to be effectively received by the Registrar until the day following the due date for such payment. For the purposes of these Conditions:

- (a) “Relevant Banking Day” means a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Registrar is located; and
- (b) the “transfer date” shall be the Relevant Banking Day following the day on which the relevant Registered Note shall have been surrendered for transfer in accordance with Condition 2.4.

2.6 No Charges upon Transfer

The issue of new Registered Notes on transfer will be effected without charge by or on behalf of the Issuer or the Registrar, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer or the Registrar may require in respect of) any tax, duty or other governmental charge of whatsoever nature which may be levied or imposed in relation thereto.

2.7 144A Legend

Upon the transfer or replacement of Definitive Registered Notes or Rule 144A Global Notes bearing the 144A legend (the “144A Legend”) set forth in the relevant form of Registered Note scheduled to the Trust Deed, or upon specific request for removal of the 144A Legend, the Registrar shall deliver only Registered Notes that also bear such legend unless there is delivered to the Issuer and the Registrar such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of counsel experienced in giving opinions with respect to questions arising under the securities laws of the United States, that neither such legend nor the restrictions on transfer set forth therein are required in order to maintain compliance with the provisions of such laws.

The Issuer covenants and agrees that it will not acquire any beneficial interest, and will cause its affiliates not to acquire any beneficial interest, in any Registered Note bearing the 144A Legend unless it notifies the Registrar of such acquisition. Each Paying Agent, the Registrar, the Trustee and all Holders shall be entitled to rely without further investigation on any such notification (or lack thereof).

2.8 Information to Holders

For so long as any of the Registered Notes bearing the 144A Legend remains outstanding and is a “restricted security” within the meaning of Rule 144(a)(3) under the United States Securities Act of 1933 (the “Securities Act”), the Issuer covenants and agrees that it shall, during any period in which it is not subject to Section 13 or 15(d) under the United States Securities Exchange Act 1934, as amended (the “Exchange Act”) nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any Holder at the specified office of each of the Paying Agents and the Registrar in connection with any sale thereof and any prospective purchaser of such Notes from such Holder, in each case upon request, the information specified in, and meeting the requirements of, Rule 144A(d)(4) in relation to it, under the Securities Act.

3. STATUS OF THE NOTES

The Notes and any relative Coupons are direct and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank and will rank without any preference among themselves and (subject as aforesaid and to such exceptions as are from time to time applicable under the laws of the United Kingdom) *pari passu* with all other outstanding, unsecured and unsubordinated obligations of the Issuer.

4. NEGATIVE PLEDGE

So long as any of the Notes remains outstanding (as defined in the Trust Deed) the Issuer will not, and will procure (so far as the Issuer can procure by the proper exercise of voting and other rights or powers of control exercisable by the Issuer in relation to Subsidiaries (as defined in the Trust Deed)) that the Principal Subsidiary (as defined below) will not, create or permit to subsist any mortgage or charge upon the whole or any part of its undertaking or assets (other than assets representing the fund or funds maintained by the Issuer or, as the case may be, the Principal Subsidiary in respect of long-term business (as defined in the Financial Services and Markets Act 2000)), present or future, to secure payment of any present or future Relevant Indebtedness (as defined below) of the Issuer or any Subsidiary or to secure any guarantee or indemnity in respect thereof, without at the same time according to the Notes, the Coupons and all amounts payable under the Trust Deed in respect thereof to the satisfaction of the Trustee, the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity, or such other security as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Holders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders.

For the purposes of this Condition 4:

“Principal Subsidiary” means The Prudential Assurance Company Limited but, in the case of this Condition and paragraphs (iii) to (vii) (inclusive) of Condition 10, only for so long as it remains a Subsidiary of the Issuer; and

“Relevant Indebtedness” means any indebtedness for borrowed money (other than indebtedness in the form of sterling debenture stock (as defined in the Trust Deed) or

indebtedness which has a stated maturity not exceeding one year) which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which, with the agreement of the Issuer or any Subsidiary, as the case may be, are quoted, listed, dealt in or traded on a stock exchange or over the counter or other recognised securities market (whether or not distributed by way of private placement) excluding any indebtedness for borrowed money in respect of which the person to whom such indebtedness is owed has no recourse whatsoever to the Issuer or the Principal Subsidiary, as the case may be, for repayment other than recourse for amounts limited to the cash flow or net cash flow (other than historical cash flow or historical net cash flow) from such asset.

5. INTEREST

5A Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) (as specified in the Final Terms) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payment of any Broken Amount will be made on the Interest Payment Date so specified in the Final Terms.

As used in these Conditions, “Fixed Interest Period” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or
- (b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

For the purposes of this Condition 5A:

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 5A:

- (i) if “Actual/Actual (ICMA)” is specified in the Final Terms:
 - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the Final Terms) that would occur in one calendar year; or
 - (b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the Final Terms) that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if “30/360” is specified in the Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360;

“Determination Period” means the period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on, the Determination Date falling after, such date); and

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

5B Interest on Floating Rate Notes

5B.1 Interest Payment Dates

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (a) the Specified Interest Payment Date(s) (each an “Interest Payment Date”) in each year specified in the Final Terms; or
- (b) if no Specified Interest Payment Date(s) is/are specified in the Final Terms, each date (each an “Interest Payment Date”) which falls the number of months or other period specified as the Specified Period in the Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur, or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 5B.1(b) above, the Floating Rate Convention, such Interest Payment Date: (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (D) below shall apply *mutatis mutandis*; or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, “Business Day” means a day which is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the Final Terms;
- (b) either: (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto (the “TARGET2 System”) is open; and
- (c) where the relevant Final Terms specify that the Reference Rate is “Compounded Daily SOFR” or “Weighted Average SOFR”, a U.S. Government Securities Business Day and a New York City Banking Day.

5B.2 Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the Final Terms.

5B.3 ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the Final Terms) the Margin (if any). For the purposes of this Condition 5B.3, “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Issue and Paying Agent under an interest rate swap transaction if the Issue and Paying Agent were acting as Calculation Agent (as defined below) for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the “ISDA Definitions”) and under which:

- (1) the Floating Rate Option is as specified in the Final Terms;
- (2) the Designated Maturity is a period specified in the Final Terms; and
- (3) the relevant Reset Date is the day specified in the Final Terms.

For the purposes of this Condition 5B.3, “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity” and “Reset Date” have the meanings given to those terms in the ISDA Definitions.

5B.4 Screen Rate Determination for Floating Rate Notes

A. *Floating Rate Notes other than EONIA Linked Interest Notes, SONIA Linked Interest Notes, Federal Funds Rate Linked Interest Notes, CMS Linked Interest Notes, Compounded Daily SOFR Linked Interest Notes or Weighted Average SOFR Linked Interest Notes*

Where Screen Rate Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (i) the offered quotation; or
- (ii) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at the Relevant Time on the Interest Determination Date in question plus or minus (as indicated in the Final Terms) the Margin (if any), all as determined by the Issue and Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Issue and Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of (i) above, no offered quotation appears or, in the case of (ii) above, fewer than three offered quotations appear, in each case as at the Relevant Time, the Issue and Paying Agent shall request each of the Reference Banks (as defined below) to provide the Issue and Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Relevant Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Issue and Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Issue and Paying Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Issue and Paying Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Issue and Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Issue and Paying Agent by the Reference Banks or any two or more of them,

at which such banks were offered, at approximately the Relevant Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) or if the Reference Rate is other than LIBOR or EURIBOR, the inter-bank market of the Relevant Financial Centre plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Issue and Paying Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Relevant Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Issue and Paying Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) or if the Reference Rate is other than LIBOR or EURIBOR, the inter-bank market of the Relevant Financial Centre plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

For the purposes of this Condition 5B.4A, in each case subject to Condition 5B.4H:

“Reference Banks” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London interbank market; in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone interbank market; and, in the case of a determination of a Reference Rate other than LIBOR or EURIBOR, the principal office in the Relevant Financial Centre of four major banks in the interbank market of the Relevant Financial Centre, in each case selected by the Issuer;

“Reference Rate” means, as specified in the Final Terms, (i) LIBOR, (ii) EURIBOR, (iii) SIBOR, (iv) TIBOR, (v) HIBOR or (vi) the Bank of England Base Rate, in each case for the relevant currency and for the relevant period (if applicable), as specified for each in the Final Terms, and in each case subject as provided in Condition 5B.4H;

“Relevant Financial Centre” means the financial centre specified as such in the Final Terms or if none is so specified: (i) in the case of a determination of LIBOR, London, (ii) in the case of a determination of EURIBOR, Brussels, (iii) in the case of a determination of SIBOR, Singapore, (iv) in the case of a determination of

TIBOR, Tokyo, (v) in the case of a determination of HIBOR, Hong Kong or (vi) in the case of a determination of the Bank of England Base Rate, London; and

“Relevant Time” means the time specified as such in the Final Terms or if none is so specified: (i) in the case of a determination of LIBOR, 11.00 a.m., (ii) in the case of a determination of EURIBOR, 11.00 a.m., (iii) in the case of a determination of SIBOR, 11.00 a.m., (iv) in the case of a determination of TIBOR, 11.00 a.m. (v) in the case of a determination of HIBOR, 11.00 a.m. or (vi) in the case of a determination of the Bank of England Base Rate, 11.00 a.m., in each case in the Relevant Financial Centre.

B. Floating Rate Notes which are EONIA Linked Interest Notes

Where the Reference Rate is specified as being EONIA, the Rate of Interest for each Interest Period will be the rate (expressed as a percentage per annum rounded to the nearest ten-thousandths of a percentage point, with 0.00005 being rounded upwards) which will be calculated by the Calculation Agent in accordance with provisions set out below and the following formula:

Capitalised EONIA + Margin

As used above:

“Capitalised EONIA” means the resultant figure of the following formula:

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{EONIA_1 \times n_1}{360} \right) - 1 \right] \times \frac{360}{d};$$

“d₀” means, for the relevant Interest Period, the number of TARGET Business Days in such Interest Period;

“i” means a series of whole numbers from one to d₀, each representing the relevant TARGET Business Days in chronological order from, and including, the first TARGET Business Day in the relevant Interest Period;

“EONIA1” means, for any day “i” in the relevant Interest Period, a reference rate equal to the overnight rate as calculated by the European Central Bank and appearing on the Relevant Screen Page on the first TARGET Business Day following that day;

“n₁” means the number of calendar days in the relevant Interest Period;

“d” means the number of calendar days in the relevant Interest Period;

“Margin” has the meaning specified in the Final Terms;

“Relevant Screen Page” means the screen page specified in the Final Terms or, if none is so specified, Reuters Screen EONIA Page or any successor; and

“TARGET Business Day” means a day on which the TARGET2 System is open.

If the Calculation Agent determines that either the Relevant Screen Page is not available or no such overnight rate as referred to in EONIA1 appears for any reason for any day “i” on the TARGET Business Day following that day as provided above, the Issuer shall determine EONIA1 for such day in its sole and absolute discretion on a commercial basis as it shall consider appropriate and in accordance with standard market practice.

C. *Floating Rate Notes which are SONIA Linked Interest Notes*

Where the Reference Rate is specified as being SONIA, the Rate of Interest for each Interest Period will, subject as provided below, be Compounded Daily SONIA plus or minus (as indicated in the Final Terms) the Margin (if any), all as determined by the Calculation Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the Final Terms) on the Interest Determination Date for such Interest Period.

Subject to the provisions of Condition 5B.4H, if, in respect of any London Business Day in the relevant Observation Period, the Calculation Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the Final Terms) determines that the SONIA reference rate is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such SONIA reference rate shall be:

- (i) the Bank of England’s Bank Rate (the “Bank of England Base Rate”) prevailing at close of business on the relevant London Business Day; plus
- (ii) the mean of the spread of the SONIA reference rate to the Bank of England Base Rate over the previous five days on which a SONIA reference rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads).

Subject to the provisions of Condition 5B.4H, if the Rate of Interest cannot be determined in accordance with paragraphs (a) and (b) by the Calculation Agent (or such other party responsible for the calculation of

the Rate of Interest, as specified in the Final Terms), the Rate of Interest shall be:

(i) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Period in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Period); or

(ii) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to the Notes for the first Interest Period had the Notes been in issue for a period equal in duration to the scheduled first Interest Period but ending on (and excluding) the Interest Commencement Date (but applying the Margin and any Maximum Rate of Interest or Minimum Rate of Interest applicable to the first Interest Period).

If the Notes become due and payable in accordance with Condition 10, the final Interest Determination Date shall, notwithstanding any Interest Determination Date specified in the Final Terms, be deemed to be the date on which such Notes became due and payable and the Rate of Interest on the Notes shall, for so long as any of the Notes remain outstanding, be that determined on such date.

For the purposes of this Condition 5B.4C:

“Compounded Daily SONIA” means the rate of return of a daily compound interest investment (with the daily Sterling overnight reference rate as reference rate for the calculation of interest) and will be calculated by the Calculation Agent on the relevant Interest Determination Date, as follows, and the resulting percentage will be rounded, if necessary, to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{SONIA_{i-pLBD} \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

Where:

“d” means the number of calendar days in the relevant Interest Period;

“d₀” means the number of London Business Days in the relevant Interest Period;

“i” means a series of whole numbers from one to d0, each representing the relevant London Business Days in chronological order from, and including, the first London Business Day in the relevant Interest Period;

“London Business Day” or “LBD” means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London;

“n_i” means, in relation to any London Business Day “i”, the number of calendar days from and including such London Business Day up to, but excluding, the following London Business Day;

“Observation Period” means the period from, and including, the date falling “p” London Business Days prior to the first day of the relevant Interest Period (and the first Interest Period shall begin on and include the Interest Commencement Date) and ending on, but excluding, the date falling “p” London Business Days prior to the Interest Payment Date for such Interest Period (or the date falling “p” London Business Days prior to such earlier date, if any, on which the Notes become due and payable);

“p” means, for any Interest Period, the number of London Business Days included in the Observation Look-back Period, as specified in the Final Terms;

“Relevant Screen Page” means the screen page specified in the Final Terms;

the “SONIA reference rate”, in respect of any London Business Day, is a reference rate equal to the daily Sterling Overnight Index Average (“SONIA”) rate for such London Business Day as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors (on the London Business Day immediately following such London Business Day); and

“SONIA_{i-pLBD}” means, in respect of any London Business Day falling in the relevant Interest Period, the SONIA reference rate for the London Business Day “i” falling “p” London Business Days prior to the relevant London Business Day “i”.

D. Floating Rate Notes which are Federal Funds Rate Linked Interest Notes

Where the Reference Rate is specified as being the Federal Funds Rate, the Rate of Interest for each Interest Period will be calculated by the Calculation Agent in accordance with the provisions set out below as the Weighted Average of the U.S. Federal Funds Rate.

As used above:

“Weighted Average of the U.S. Federal Funds Rate” means $D1/D2$.

Where:

“D1” means, in respect of an Interest Period, the sum of the Relevant Rates for each calendar day in such Interest Period. For any calendar day in the relevant Interest Period that is an Interest Determination Date, the “Relevant Rate” is the U.S. Federal Funds Rate on such Interest Determination Date. For any calendar day in such Interest Period that is not an Interest Determination Date, the Relevant Rate for such calendar day shall be the Relevant Rate on the immediately preceding Interest Determination Date;

“D2” shall mean the number of calendar days in the Interest Period;

“Interest Determination Date” means, in respect of an Interest Reset Date, the first New York City Banking Day prior to such Interest Reset Date;

“Interest Rate Cut Off Date” means, in respect of an Interest Period, the fourth New York City Banking Day prior to the Interest Payment Date on which such Interest Period ends;

“Interest Reset Date” means, in respect of an Interest Period, each New York City Banking Day in such Interest Period up to and including the Interest Rate Cut Off Date;

“New York City Banking Day” means any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York City; and

“U.S. Federal Funds Rate” means, in respect of an Interest Determination Date, the rate for U.S. dollar federal funds on such Interest Determination Date as published in H.15(519) under the caption “Federal Funds (effective)” and displayed on Reuters (or any successor service) on page FEDFUNDS1 under the caption “EFFECT” (or any other page as may replace the specified page on that service) (“FEDFUNDS1 Page”).

If the U.S. Federal Funds Rate for an Interest Determination Date does not so appear on the FEDFUNDS1 Page or is not so published by 5.00 p.m. (New York City time) on the Interest Reset Date, in respect of such Interest Determination Date, the U.S. Federal Funds Rate for such Interest Determination Date shall be as published in H.15 Daily Update, or such other recognised electronic source used for the purpose of displaying the applicable rate, under the caption “Federal funds (effective)”. If the U.S. Federal Funds Rate is not so published by 5.00 p.m. (New York City time) on the Interest Reset Date, the U.S. Federal Funds Rate with respect to such Interest Determination Date shall be the U.S. Federal Funds Rate for the first preceding day for which the U.S. Federal Funds Rate is set forth

in H.15(519) opposite the caption “Federal funds (effective)”, as the U.S. Federal Funds Rate is displayed on the FEDFUNDS1 Page.

E. Floating Rate Notes which are CMS Linked Interest Notes

Where the Reference Rate is specified as being the CMS Reference Rate, the Rate of Interest for each Interest Period will be calculated by the Calculation Agent in accordance with the provisions set out below and the following formula:

CMS Rate + Margin

As used above:

“CMS Rate” shall mean the Relevant Swap Rate for swap transactions in the Reference Currency with a maturity of the Designated Maturity (expressed as a percentage rate per annum) which appears on the Relevant Screen Page as at the Relevant Time on the Interest Determination Date in question, all as determined by the Calculation Agent.

If the Relevant Screen Page is not available, the Calculation Agent shall request each of the Reference Banks (as defined below) to provide the Calculation Agent with its quotation for the Relevant Swap Rate (expressed as a percentage rate per annum) at approximately the Relevant Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent such quotations, the CMS Rate for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest).

For this purpose:

“Margin” has the meaning specified in the Final Terms;

“Reference Banks” means (i) where the Reference Currency is Euro, the principal office of five leading swap dealers in the inter-bank market, (ii) where the Reference Currency is Sterling, the principal London office of five leading swap dealers in the London inter-bank market, (iii) where the Reference Currency is United States dollars, the principal New York City office of five leading swap dealers in the New York City inter-bank market, or (iv) in the case of any other Reference Currency, the principal Relevant Financial Centre office of five leading swap dealers in the Relevant Financial Centre inter-bank market, in each case as selected by the Issuer;

“Relevant Screen Page” has the meaning specified in the Final Terms;

“Relevant Swap Rate” means:

- (i) where the Reference Currency is euro, the mid-market annual swap rate determined on the basis of the arithmetic mean of the bid and offered rates for the annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating euro interest rate swap transaction with a term equal to the Designated Maturity commencing on the first day of the relevant Interest Period and in a Representative Amount with an acknowledged dealer of good credit in the swap market, where the floating leg, in each case calculated on an Actual/360 day count basis, is equivalent to EUR-EURIBOR-Reuters (as defined in the ISDA Definitions) with a designated maturity determined by the Issuer by reference to standard market practice and/or the ISDA Definitions;
- (ii) where the Reference Currency is Sterling, the mid-market semi-annual swap rate determined on the basis of the arithmetic mean of the bid and offered rates for the semi-annual fixed leg, calculated on an Actual/365 (Fixed) day count basis, of a fixed-for-floating Sterling interest rate swap transaction with a term equal to the Designated Maturity commencing on the first day of the relevant Interest Period and in a Representative Amount with an acknowledged dealer of good credit in the swap market, where the floating leg, in each case calculated on an Actual/365 (Fixed) day count basis, is equivalent (A) if the Designated Maturity is greater than one year, to GBP-LIBOR-BBA (as defined in the ISDA Definitions) with a designated maturity of six months or (B) if the Designated Maturity is one year or less, to GBP-LIBOR-BBA with a designated maturity of three months;
- (iii) where the Reference Currency is United States dollars, the mid-market semi-annual swap rate determined on the basis of the mean of the bid and offered rates for the semi-annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating United States dollar interest rate swap transaction with a term equal to the Designated Maturity commencing on the first day of the relevant Interest Period and in a Representative Amount with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an Actual/360 day count basis, is equivalent to USD-LIBOR-BBA (as defined in the ISDA Definitions) with a designated maturity of three months; and
- (iv) where the Reference Currency is any other currency, the mid-market swap rate as determined by the Issuer in its sole and absolute discretion on a commercial basis as it shall consider appropriate and in accordance with standard market practice;

“Relevant Time” has the meaning specified in the Final Terms; and

“Representative Amount” means an amount that is representative for a single transaction in the relevant market at the relevant time.

If on any Interest Determination Date one only or none of the Reference Banks provides the Calculation Agent with such quotations as provided in the preceding paragraph, the CMS Rate shall be determined by the Issuer in its sole and absolute discretion on a commercial basis as it shall consider appropriate and in accordance with standard market practice.

F. Compounded Daily SOFR

(a) Where the Reference Rate is specified as being Compounded Daily SOFR, the Rate of Interest for each Interest Period will, subject as provided below, be Compounded Daily SOFR plus or minus (as indicated in the Final Terms) the Margin (if any), all as determined by the Calculation Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the Final Terms) on the Interest Determination Date for such Interest Period.

(b) For the purposes of this Condition 5B.4F:

“Compounded Daily SOFR” means, in relation to an Interest Period, the rate of return of a daily compound interest investment (with SOFR as the reference rate for the calculation of interest) and will be calculated by the Calculation Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the Final Terms) as follows, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{SOFR_i \times n_i}{360} \right) - 1 \right] \times \frac{360}{d}$$

Where:

“d” means, in relation to any Interest Period, the number of calendar days in such Interest Period;

“d₀” means, in relation to any Interest Period, the number of U.S. Government Securities Days in such Interest Period;

“Federal Reserve's Website” means the website of the Board of Governors of the Federal Reserve System currently at <http://www.federalreserve.gov>, or any successor website;

“i” means, in relation to any Interest Period, a series of whole numbers from one to d₀, each representing the relevant U.S. Government Securities Business Day in chronological order from (and including) the first U.S. Government Securities Business Day in such Interest Period;

"n_i" means, in relation to any U.S. Government Securities Business Day "i", the number of calendar days from (and including) such U.S. Government Securities Business Day "i" up to (but excluding) the following U.S. Government Securities Business Day;

"New York City Banking Day" means any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York City;

"New York Federal Reserve's Website" means the website of the Federal Reserve Bank of New York currently at <http://www.newyorkfed.org>, or any successor website;

"OBFR" or "Overnight Bank Funding Rate" means, in relation to any New York City Banking Day (the "OBFR Determination Date"), the daily overnight bank funding rate as published by the Federal Reserve Bank of New York, as the administrator of such rate (or any successor administrator) at or around 5:00 pm (New York City time) on the New York Federal Reserve's Website on the next succeeding New York City Banking Day for trades made on such OBFR Determination Date;

"OBFR Index Cessation Effective Date" means, in relation to an OBFR Index Cessation Event, the date on which the Federal Reserve Bank of New York (or any successor administrator of the daily Overnight Bank Funding Rate) ceases to publish the daily Overnight Bank Funding Rate or the date as of which the daily Overnight Bank Funding Rate may no longer be used;

"OBFR Index Cessation Event" means the occurrence of one or more of the following events:

- (i) a public statement by the Federal Reserve Bank of New York (or a successor administrator of the daily Overnight Bank Funding Rate) announcing that it has ceased or will cease to publish or provide the daily Overnight Bank Funding Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide a daily Overnight Bank Funding Rate;
- (ii) the publication of information which reasonably confirms that the Federal Reserve Bank of New York (or a successor administrator of the daily Overnight Bank Funding Rate) has ceased or will cease to provide the daily Overnight Bank Funding Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide the daily Overnight Bank Funding Rate; or

- (iii) a public statement by a U.S. regulator or other U.S. official sector entity prohibiting the use of the daily Overnight Bank Funding Rate that applies to, but need not be limited to, all swap transactions, including existing swap transactions;

“SIFMA” means the Securities Industry and Financial Markets Association (or any successor thereto);

“SOFR” means:

- (i) in relation to any U.S. Government Securities Business Day (the “SOFR Determination Date”), the daily Secured Overnight Financing Rate published at or around 5:00 p.m. (New York City time) on the New York Federal Reserve's Website on the next succeeding U.S. Government Securities Business Day for trades made on such SOFR Determination Date;
- (ii) if the rate specified in (i) above is not so published, and a SOFR Index Cessation Event and SOFR Index Cessation Effective Date have not both occurred, the daily Secured Overnight Financing Rate in respect of the last U.S. Government Securities Business Day for which such rate was published on the New York Federal Reserve's Website; or
- (iii) if the rate specified in (i) above is not so published, and a SOFR Index Cessation Event and SOFR Index Cessation Effective Date have both occurred, “SOFR” in relation to such SOFR Determination Date shall be the rate that was recommended as the replacement for the daily Secured Overnight Financing Rate by the Federal Reserve Board and/or the Federal Reserve Bank of New York or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York for the purpose of recommending a replacement for the daily Secured Overnight Financing Rate (which rate may be produced by the Federal Reserve Bank of New York or other designated administrator, and which rate may include any adjustments or spreads); provided, however, that, if no such rate has been recommended within one U.S. Government Securities Business Day of the SOFR Index Cessation Effective Date, then:
 - (1) subject to (2) below, “SOFR” in relation to each SOFR Determination Date falling on or after the SOFR Index Cessation Effective Date shall be equal to the rate determined in accordance with (i) or (ii) above (as applicable) but as if:
 - (aa) references in this Condition 5B.4F to “U.S. Government Securities Business Day” were to

“New York City Banking Day” (but so that, in the case of the Interest Period in which the SOFR Index Cessation Effective Date occurred, “d₀” shall be construed so that it means the aggregate of (x) the number of U.S. Government Securities Business Days in such Interest Period up to (but excluding) the SOFR Index Cessation Effective Date and (y) the number of New York City Banking Days in such Interest Period from (and including) the SOFR Index Cessation Effective Date, and “i” shall be construed accordingly);

(bb) references to “daily Secured Overnight Financing Rate” were to the “daily Overnight Bank Funding Rate”;

(cc) references to “SOFR Index Cessation Event” were references to “OBFR Index Cessation Event”; and

(dd) references to “SOFR Index Cessation Effective Date” were references to “OBFR Index Cessation Effective Date”; and

(2) if the rate specified in (1) above is not so published and an OBFR Index Cessation Event and an OBFR Index Cessation Effective Date have both occurred, then, in relation to each SOFR Determination Date falling on or after the later of the SOFR Index Cessation Effective Date and the OBFR Index Cessation Effective Date, “SOFR” shall be equal to the rate determined in accordance with (i) above but as if:

(aa) references in this Condition 5B.4F to “U.S. Government Securities Business Day” were to “New York City Banking Day” (but so that, in the case of the Interest Period in which the SOFR Index Cessation Effective Date occurred, “d₀” shall be construed so that it means the aggregate of (x) the number of U.S. Government Securities Business Days in such Interest Period up to (but excluding) the SOFR Index Cessation Effective Date and (y) the number of New York City Banking Days in such Interest Period from (and including) the SOFR Index Cessation Effective Date, and “i” shall be construed accordingly); and

- (bb) the reference in paragraph (i) above to the “daily Secured Overnight Financing Rate published at or around 5:00 p.m. (New York City time) on the New York Federal Reserve's Website on the next succeeding U.S. Government Securities Business Day for trades made on such SOFR Determination Date” were a reference to the short-term interest rate target set by the Federal Open Market Committee, as published on the Federal Reserve's Website and as prevailing on such SOFR Determination Date, or if the Federal Open Market Committee has not set a single rate, the mid-point of the short-term interest rate target range set by the Federal Open Market Committee, as published on the Federal Reserve's Website and as prevailing on such SOFR Determination Date (calculated as the arithmetic average of the upper bound of the target range and the lower bound of the target range, rounded, if necessary, to the nearest second decimal place with 0.005 being rounded upwards);

“SOFR Index Cessation Effective Date” means, in relation to a SOFR Index Cessation Event, the date on which the Federal Reserve Bank of New York (or any successor administrator of the daily Secured Overnight Financing Rate) ceases to publish the daily Secured Overnight Financing Rate, or the date as of which the daily Secured Overnight Financing Rate may no longer be used;

“SOFR Index Cessation Event” means the occurrence of one or more of the following events:

- (i) a public statement by the Federal Reserve Bank of New York (or a successor administrator of the daily Secured Overnight Financing Rate) announcing that it has ceased or will cease to publish or provide the daily Secured Overnight Financing Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide a daily Secured Overnight Financing Rate;
- (ii) the publication of information which reasonably confirms that the Federal Reserve Bank of New York (or a successor administrator of the daily Secured Overnight Financing Rate) has ceased or will cease to provide the daily Secured Overnight Financing Rate permanently or indefinitely, provided that, at that time there is no successor administrator that will continue to publish or provide the daily Secured Overnight Financing Rate; or

- (iii) a public statement by a U.S. regulator or other U.S. official sector entity prohibiting the use of the daily Secured Overnight Financing Rate that applies to, but need not be limited to, all swap transactions, including existing swap transactions;

“SOFR Reset Date” means, in relation to any Interest Period, each U.S. Government Securities Business Day during such Interest Period, other than any U.S. Government Securities Business Day in the period from (and including) the day following the Interest Determination Date to (but excluding) the corresponding Interest Payment Date (such period, the “Cut-Off Period”);

“SOFR_i” means, in relation to any Interest Period and any U.S. Government Securities Business Day “i”:

- (i) if such U.S. Government Securities Business Day is a SOFR Reset Date, SOFR in relation to the U.S. Government Securities Business Day immediately preceding such SOFR Reset Date; and
- (ii) if such U.S. Government Securities Business Day is not a SOFR Reset Date (being a U.S. Government Securities Business Day falling in the Cut-Off Period), SOFR in relation to the U.S. Government Securities Business Day immediately preceding the last SOFR Reset Date in such Interest Period; and

“U.S. Government Securities Business Day” means any day except for a Saturday, Sunday or a day on which SIFMA recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

- (c) The Issuer may at any time, following consultation with an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets (in each case appointed by the Issuer at its own expense), specify such changes to paragraph (iii) of the definition of “SOFR” set out in this Condition 5B.4F as it determines are reasonably necessary to ensure the proper operation and comparability to the Reference Rate of rates determined in accordance with such paragraph, which changes shall apply to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 5B.4F(c)). For the avoidance of doubt, the Trustee shall, at the direction and expense of the Issuer, effect such amendments to the Conditions together with such consequential amendments to the Trust Deed and Agency Agreement as may be required to give effect to the application of this Condition 5B.4F(c).

Prior to any such amendment, the Issuer shall provide a certificate signed by two Directors of the Issuer to the Trustee confirming that the Issuer

has made the relevant determinations in accordance with this Condition 5B.4F(c), such amendments are required to give effect to any application of this Condition 5B.4F(c) and attaching the proposed amendments and the Trustee shall be entitled to rely on such certificate without further enquiry or liability to any person. For the avoidance of doubt, the Trustee shall not be liable to the Holders of the Notes or to any other person for any consequences thereof, irrespective of whether any such modification is or may be materially prejudicial to the interests of such person. No consent of the Holders of the Notes or of the Couponholders shall be required in connection with effecting such changes, including for the execution of, or amendments to, any documents or the taking of other steps by the Trustee, the Issuer or any of the parties to the Trust Deed and/or the Agency Agreement (if required). The Trustee shall not be obliged to agree to any amendments which in the sole opinion of the Trustee would have the effect of (1) exposing the Trustee to any liabilities against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (2) increasing the obligations or duties, or decreasing the rights or protection, of the Trustee in the documents to which it is a party and/or these Conditions. The Issuer shall promptly following the determination of any changes pursuant to this Condition 5B.4F(c) give notice thereof to the Trustee, the Issuer and Paying Agent, the Calculation Agent and the Holders.

G. *Weighted Average SOFR*

- (a) Where the Reference Rate is specified as being Weighted Average SOFR, the Rate of Interest for each Interest Period will, subject as provided below, be Weighted Average SOFR plus or minus (as indicated in the Final Terms) the Margin (if any), all as determined by the Calculation Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the Final Terms) on the Interest Determination Date for such Interest Period.

- (b) For the purposes of this Condition 5B.4G:

“Weighted Average SOFR” means, in relation to any Interest Period, the arithmetic mean of $SOFR_i$ in effect for each U.S. Government Securities Business Day during such Interest Period (each such U.S. Government Securities Business Day, “i”), calculated by multiplying the relevant $SOFR_i$ for any U.S. Government Securities Business Day “i” by the number of days such $SOFR_i$ is in effect (being the number of calendar days from (and including) such U.S. Government Securities Business Day “i” up to (but excluding) the following U.S. Government Securities Business Day), determining the sum of such products and dividing such sum by the number of calendar days in the relevant Interest Period.

Where:

"Federal Reserve's Website" means the website of the Board of Governors of the Federal Reserve System currently at <http://www.federalreserve.gov>, or any successor website;

"New York City Banking Day" means any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York City;

"New York Federal Reserve's Website" means the website of the Federal Reserve Bank of New York currently at <http://www.newyorkfed.org>, or any successor website;

"OBFR" or "Overnight Bank Funding Rate" means, in relation to any New York City Banking Day (the "OBFR Determination Date"), the daily overnight bank funding rate as published by the Federal Reserve Bank of New York, as the administrator of such rate (or any successor administrator) at or around 5:00 pm (New York City time) on the New York Federal Reserve's Website on the next succeeding New York City Banking Day for trades made on such OBFR Determination Date;

"OBFR Index Cessation Effective Date" means, in relation to an OBFR Index Cessation Event, the date on which the Federal Reserve Bank of New York (or any successor administrator of the daily Overnight Bank Funding Rate) ceases to publish the daily Overnight Bank Funding Rate or the date as of which the daily Overnight Bank Funding Rate may no longer be used;

"OBFR Index Cessation Event" means the occurrence of one or more of the following events:

- (i) a public statement by the Federal Reserve Bank of New York (or a successor administrator of the daily Overnight Bank Funding Rate) announcing that it has ceased or will cease to publish or provide the daily Overnight Bank Funding Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide a daily Overnight Bank Funding Rate;
- (ii) the publication of information which reasonably confirms that the Federal Reserve Bank of New York (or a successor administrator of the daily Overnight Bank Funding Rate) has ceased or will cease to provide the daily Overnight Bank Funding Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide the daily Overnight Bank Funding Rate; or

- (iii) a public statement by a U.S. regulator or other U.S. official sector entity prohibiting the use of the daily Overnight Bank Funding Rate that applies to, but need not be limited to, all swap transactions, including existing swap transactions;

“SIFMA” means the Securities Industry and Financial Markets Association (or any successor thereto);

“SOFR” means:

- (i) in relation to any U.S. Government Securities Business Day (the “SOFR Determination Date”), the daily Secured Overnight Financing Rate published at or around 5:00 p.m. (New York City time) on the New York Federal Reserve's Website on the next succeeding U.S. Government Securities Business Day for trades made on such SOFR Determination Date;
- (ii) if the rate specified in (i) above is not so published, and a SOFR Index Cessation Event and SOFR Index Cessation Effective Date have not both occurred, the daily Secured Overnight Financing Rate in respect of the last U.S. Government Securities Business Day for which such rate was published on the New York Federal Reserve's Website; or
- (iii) if the rate specified in (i) above is not so published, and a SOFR Index Cessation Event and SOFR Index Cessation Effective Date have both occurred, “SOFR” in relation to such SOFR Determination Date shall be the rate that was recommended as the replacement for the daily Secured Overnight Financing Rate by the Federal Reserve Board and/or the Federal Reserve Bank of New York or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York for the purpose of recommending a replacement for the daily Secured Overnight Financing Rate (which rate may be produced by the Federal Reserve Bank of New York or other designated administrator, and which rate may include any adjustments or spreads); provided, however, that, if no such rate has been recommended within one U.S. Government Securities Business Day of the SOFR Index Cessation Effective Date, then:
 - (1) subject to (2) below, “SOFR” in relation to each SOFR Determination Date falling on or after the SOFR Index Cessation Effective Date shall be equal to the rate determined in accordance with (i) or (ii) above (as applicable) but as if:
 - (aa) references in this Condition 5B.4G to “U.S. Government Securities Business Day” were to

“New York City Banking Day” (but so that, in the case of the Interest Period in which the SOFR Index Cessation Effective Date occurred, “Weighted Average SOFR” shall be construed so that it means the arithmetic mean of (x) SOFR_i in effect for each U.S. Government Securities Business Day in such Interest Period up to (but excluding) the SOFR Index Cessation Effective Date and (y) SOFR_i in effect for each New York City Banking Day in such Interest Period from (and including) the SOFR Index Cessation Effective Date, and the definition of “Weighted Average SOFR” shall be construed accordingly);

(bb) references to “daily Secured Overnight Financing Rate” were to the “daily Overnight Bank Funding Rate”;

(cc) references to “SOFR Index Cessation Event” were references to “OBFR Index Cessation Event”; and

(dd) references to “SOFR Index Cessation Effective Date” were references to “OBFR Index Cessation Effective Date”; and

(2) if the rate specified in (1) above is not so published and an OBFR Index Cessation Event and an OBFR Index Cessation Effective Date have both occurred, then, in relation to each SOFR Determination Date falling on or after the later of the SOFR Index Cessation Effective Date and the OBFR Index Cessation Effective Date, “SOFR” shall be equal to the rate determined in accordance with (i) above but as if:

(aa) references in this Condition 5B.4G to “U.S. Government Securities Business Day” were to “New York City Banking Day” (but so that, in the case of the Interest Period in which the SOFR Index Cessation Effective Date occurred, “Weighted Average SOFR” shall be construed so that it means the arithmetic mean of (x) SOFR_i in effect for each U.S. Government Securities Business Day in such Interest Period up to (but excluding) the SOFR Index Cessation Effective Date and (y) SOFR_i in effect for each New York City Banking Day in such Interest Period from (and including) the SOFR Index Cessation

Effective Date, and the definition of “Weighted Average SOFR” shall be construed accordingly); and

- (bb) the reference in paragraph (i) above to the “daily Secured Overnight Financing Rate published at or around 5:00 p.m. (New York City time) on the New York Federal Reserve’s Website on the next succeeding U.S. Government Securities Business Day for trades made on such SOFR Determination Date” were a reference to the short-term interest rate target set by the Federal Open Market Committee, as published on the Federal Reserve’s Website and as prevailing on such SOFR Determination Date, or if the Federal Open Market Committee has not set a single rate, the mid-point of the short-term interest rate target range set by the Federal Open Market Committee, as published on the Federal Reserve’s Website and as prevailing on such SOFR Determination Date (calculated as the arithmetic average of the upper bound of the target range and the lower bound of the target range, rounded, if necessary, to the nearest second decimal place with 0.005 being rounded upwards);

“SOFR Index Cessation Effective Date” means, in relation to a SOFR Index Cessation Event, the date on which the Federal Reserve Bank of New York (or any successor administrator of the daily Secured Overnight Financing Rate) ceases to publish the daily Secured Overnight Financing Rate, or the date as of which the daily Secured Overnight Financing Rate may no longer be used;

“SOFR Index Cessation Event” means the occurrence of one or more of the following events:

- (i) a public statement by the Federal Reserve Bank of New York (or a successor administrator of the daily Secured Overnight Financing Rate) announcing that it has ceased or will cease to publish or provide the daily Secured Overnight Financing Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide a daily Secured Overnight Financing Rate;
- (ii) the publication of information which reasonably confirms that the Federal Reserve Bank of New York (or a successor administrator of the daily Secured Overnight Financing Rate) has ceased or

will cease to provide the daily Secured Overnight Financing Rate permanently or indefinitely, provided that, at that time there is no successor administrator that will continue to publish or provide the daily Secured Overnight Financing Rate; or

- (iii) a public statement by a U.S. regulator or other U.S. official sector entity prohibiting the use of the daily Secured Overnight Financing Rate that applies to, but need not be limited to, all swap transactions, including existing swap transactions;

“SOFR Reset Date” means, in relation to any Interest Period, each U.S. Government Securities Business Day during such Interest Period, other than any U.S. Government Securities Business Day in the period from (and including) the day following the Interest Determination Date to (but excluding) the corresponding Interest Payment Date (such period, the “Cut-Off Period”);

“SOFR_i” means, in relation to any Interest Period and any U.S. Government Securities Business Day “i”:

- (i) if such U.S. Government Securities Business Day is a SOFR Reset Date, SOFR in relation to the U.S. Government Securities Business Day immediately preceding such SOFR Reset Date; and
- (ii) if such U.S. Government Securities Business Day is not a SOFR Reset Date (being a U.S. Government Securities Business Day falling in the Cut-Off Period), SOFR in relation to the U.S. Government Securities Business Day immediately preceding the last SOFR Reset Date in such Interest Period; and

“U.S. Government Securities Business Day” means any day except for a Saturday, Sunday or a day on which SIFMA recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

- (c) The Issuer may at any time, following consultation with an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets (in each case appointed by the Issuer at its own expense), specify such changes to paragraph (iii) of the definition of “SOFR” set out in this Condition 5B.4G as it determines are reasonably necessary to ensure the proper operation and comparability to the Reference Rate of rates determined in accordance with such paragraph, which changes shall apply to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 5B.4G(c)). For the avoidance of doubt, the Trustee shall, at the direction and expense of the Issuer, effect such amendments to the Conditions together with such consequential amendments to the

Trust Deed and Agency Agreement as may be required to give effect to the application of this Condition 5B.4G(c).

Prior to any such amendment, the Issuer shall provide a certificate signed by two Directors of the Issuer to the Trustee confirming that the Issuer has made the relevant determinations in accordance with this Condition 5B.4G(c), such amendments are required to give effect to any application of this Condition 5B.4G(c) and attaching the proposed amendments and the Trustee shall be entitled to rely on such certificate without further enquiry or liability to any person. For the avoidance of doubt, the Trustee shall not be liable to the Holders of the Notes or to any other person for any consequences thereof, irrespective of whether any such modification is or may be materially prejudicial to the interests of such person. No consent of the Holders of the Notes or of the Couponholders shall be required in connection with effecting such changes, including for the execution of, or amendments to, any documents or the taking of other steps by the Trustee, the Issuer or any of the parties to the Trust Deed and/or the Agency Agreement (if required)). The Trustee shall not be obliged to agree to any amendments which in the sole opinion of the Trustee would have the effect of (1) exposing the Trustee to any liabilities against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (2) increasing the obligations or duties, or decreasing the rights or protection, of the Trustee in the documents to which it is a party and/or these Conditions. The Issuer shall promptly following the determination of any changes pursuant to this Condition 5B.4G(c) give notice thereof to the Trustee, the Issuer and Paying Agent, the Calculation Agent and the Holders.

H. Reference Rate Replacement

If:

- (1) Reference Rate Replacement is specified as applicable in the Final Terms;
- (2) Screen Rate Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined; and
- (3) notwithstanding the provisions of Condition 5B.4A above, a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or component thereof) remains to be determined by reference to such Original Reference Rate,

then the following provisions shall apply to the relevant Series of Notes:

- (a) The Issuer shall use reasonable endeavours to appoint an Independent Adviser, at the Issuer's own expense, to determine a Successor Reference Rate or, if such Independent Adviser is unable so to determine

a Successor Reference Rate, an Alternative Reference Rate and, in each case, an Adjustment Spread (in any such case, acting in good faith and in a commercially reasonable manner) for the purposes of determining the Rate of Interest applicable to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 5B.4H during any other future Interest Period(s)).

(b) Subject to paragraph (c) of this Condition 5B.4H, if:

- (i) the relevant Independent Adviser (acting in good faith and in a commercially reasonable manner), no later than five Business Days prior to the Interest Determination Date relating to the next Interest Period (the **"IA Determination Cut-off Date"**), determines a Successor Reference Rate or, if such Independent Adviser fails so to determine a Successor Reference Rate, an Alternative Reference Rate and, in each case, an Adjustment Spread (in any such case, acting in good faith and in a commercially reasonable manner) for the purposes of determining the Rate of Interest (or component thereof) applicable to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 5B.4H during any other future Interest Period(s)); or
- (ii) the Issuer is unable to appoint an Independent Adviser, or the Independent Adviser appointed by the Issuer in accordance with paragraph (a) of this Condition 5B.4H fails to determine a Successor Reference Rate or an Alternative Reference Rate prior to the relevant IA Determination Cut-off Date, the Issuer (acting in good faith and in a commercially reasonable manner), no later than three Business Days prior to the Interest Determination Date relating to the next Interest Period (the **"Issuer Determination Cut-off Date"**), determines a Successor Reference Rate or, if the Issuer fails so to determine a Successor Reference Rate, an Alternative Reference Rate (as applicable) and, in each case, an Adjustment Spread (in any such case, acting in good faith and in a commercially reasonable manner) for the purposes of determining the Rate of Interest (or component thereof) applicable to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 5B.4H during any other future Interest Period(s)),

then:

- (A) such Successor Reference Rate or Alternative Reference Rate (as applicable) shall be used in place of the Original Reference Rate for all future Interest Periods (subject to the subsequent operation of this Condition 5B.4H during any other future Interest Period(s)).

Without prejudice to the definitions thereof, for the purposes of determining an Alternative Reference Rate, the Issuer will take into account relevant and applicable market precedents as well as any published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets and such other materials as the Issuer, in its sole discretion, considers appropriate; and

- (B) if the relevant Independent Adviser or the Issuer (as applicable) determines an Adjustment Spread, then such Adjustment Spread shall be applied to such Successor Reference Rate or Alternative Reference Rate (as applicable) for all future Interest Periods (subject to the subsequent operation of this Condition 5B.4H).
- (c) Notwithstanding any other provision of this Condition 5B.4 above, if:
 - (i) the Independent Adviser appointed by the Issuer in accordance with paragraph (a) of this Condition 5B.4H notifies the Issuer prior to the IA Determination Cut-off Date that it has determined that no Successor Reference Rate or Alternative Reference Rate exists or, in either case, that it is unable to determine the applicable Adjustment Spread; or
 - (ii) the Independent Adviser appointed by the Issuer in accordance with paragraph (a) of this Condition 5B.4H fails to determine a Successor Reference Rate or an Alternative Reference Rate and, in either case, the applicable Adjustment Spread, prior to the relevant IA Determination Cut-off Date, without notifying the Issuer as contemplated in sub-paragraph (c)(i) of this Condition 5B.4H, and the Issuer (acting in good faith and in a commercially reasonable manner) determines prior to the Issuer Determination Cut-off Date that no Successor Reference Rate or Alternative Reference Rate exists or, in either case, that it is unable to determine the applicable Adjustment Spread,

and, in either case, neither a Successor Reference Rate nor an Alternative Reference Rate is otherwise determined, in each case, together with the applicable Adjustment Spread, in accordance with paragraph (b) of this Condition 5B.4H prior to the Issuer Determination Cut-off Date, the relevant Rate of Interest shall be determined as at the last preceding Interest Determination Date or, in the case of the first Interest Determination Date, the Rate of Interest shall be the Initial Rate of Interest (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Period in place of the Margin

or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Period).

This paragraph (c) shall apply to the relevant Interest Period only. Any subsequent Interest Period(s) shall be subject to the operation of this Condition 5B.4H.

- (d) Promptly following the occurrence of a Benchmark Event and the determination of any Successor Reference Rate or Alternative Reference Rate (as applicable) and, in either case, an Adjustment Spread, as described in this Condition 5B.4H, the Issuer shall give notice that a Benchmark Event has occurred, including detailing the Successor Reference Rate or Alternative Reference Rate (as applicable) and the Adjustment Spread (and the effective date(s) thereof), pursuant to this Condition 5B.4H to the Trustee, the Issue and Paying Agent and the Holders.
- (e) The Trustee and the Issue and Paying Agent shall, at the direction and expense of the Issuer, effect such waivers and consequential amendments to the Trust Deed, the Agency Agreement, these Conditions and any other document as may be required to give effect to any application of this Condition 5B.4H, including, but not limited to:
 - (i) changes to these Conditions which the relevant Independent Adviser or the Issuer (as applicable) determines may be required in order to follow market practice (determined according to factors including, but not limited to, public statements, opinions and publications of industry bodies and organisations) in relation to such Successor Reference Rate or Alternative Reference Rate (as applicable), including, but not limited to (A) the relevant Business Centre(s), Business Day, Business Day Convention, Day Count Fraction, Interest Determination Date, Reference Banks, Relevant Financial Centre, Relevant Screen Page and/or Relevant Time applicable to the Notes and (B) the method for determining the fallback to the Rate of Interest in relation to the Notes if such Successor Reference Rate or Alternative Reference Rate (as applicable) is not available; and
 - (ii) any other changes which the relevant Independent Adviser or the Issuer (as applicable) determines are reasonably necessary to ensure the proper operation and comparability to the Reference Rate of such Successor Reference Rate or Alternative Reference Rate (as applicable),

Prior to any such waivers and/or consequential amendments taking effect, the Issuer shall provide a certificate signed by two Directors of the Issuer to the Trustee and the Issue and Paying Agent that such waivers and/or consequential amendments are required to give effect to any

application of this Condition 5B.4H and the Trustee and the Issue and Paying Agent shall be entitled to rely on such certificate without further enquiry or liability to any person. For the avoidance of doubt, the Trustee shall not be liable to the Holders or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person. Such changes shall apply to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 5B.4H).

The Trustee shall not be obliged to agree to any modification if in the sole opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce rights and/or the protective provisions afforded to the Trustee in these Conditions or the Trust Deed.

No consent of the Holders shall be required in connection with effecting the relevant Successor Reference Rate or Alternative Reference Rate as described in this Condition 5B.4H or such other relevant adjustments pursuant to this Condition 5B.4H, or the Adjustment Spread, including for the execution of, or amendment to, any documents or the taking of other steps by the Issuer or any of the parties to the Trust Deed and/or the Agency Agreement (if required).

For the purposes of this Condition 5B.4H:

“Adjustment Spread” means either a spread (which may be positive, negative or zero) or a formula or methodology for calculating a spread, in each case to be applied to a Successor Reference Rate or an Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

- (a) in the case of a Successor Reference Rate, is formally recommended in relation to the replacement of the Original Reference Rate with such Successor Reference Rate by any Relevant Nominating Body; or
- (b) in the case of a Successor Reference Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the relevant Independent Adviser or the Issuer (as applicable) determines is customarily applied to such Successor Reference Rate or Alternative Reference Rate (as applicable) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or
- (c) if the relevant Independent Adviser or the Issuer (as applicable) determines there is no such spread, formula or methodology customarily applied, the relevant Independent Adviser or the Issuer (as applicable) in its discretion determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original

Reference Rate, where such rate has been replaced by such Successor Reference Rate or Alternative Reference Rate (as applicable);

“Alternative Reference Rate” means the rate which is customarily applied in international debt capital markets transactions for the purposes of determining floating rates of interest in respect of notes denominated in the Specified Currency and of a comparable duration to the relevant Interest Periods, or, if the relevant Independent Adviser or the Issuer (as applicable) determines that there is no such rate, such other rate as such Independent Adviser or the Issuer (as applicable) determines in its discretion is most comparable to the Original Reference Rate;

“Benchmark Event” means:

- (a) the Original Reference Rate ceasing to be published for at least five consecutive Business Days or ceasing to exist or be administered; or
- (b) the later of (i) the making of a public statement by the administrator of the Original Reference Rate that it will, on or before a specified date, cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such rate) and (ii) the date falling six months prior to the specified date referred to in (b)(i); or
- (c) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that such rate has been permanently or indefinitely discontinued; or
- (d) the later of (i) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that such rate will, on or before a specified date, be permanently or indefinitely discontinued and (ii) the date falling six months prior to the specified date referred to in (d)(i); or
- (e) the later of (i) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that means such rate will be prohibited from being used, either generally or in respect of the Notes, or that such use will be subject to restrictions or adverse consequences, in each case on or before a specified date, and (ii) the date falling six months prior to the specified date referred to in (e)(i); or
- (f) an official announcement by the regulatory supervisor of the administrator of the Original Reference Rate that such rate is no longer representative; or
- (g) it has become, or will become prior to the next Interest Determination Date, unlawful for any Paying Agent, the Issuer or any other party specified in the Final Terms as being responsible for such calculations to calculate any payments due to be made to any Holder or Couponholder using the Original Reference Rate.

“Independent Adviser” means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets;

“Original Reference Rate” means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any relevant component part(s) thereof) on the Notes (or, if applicable, any other successor or alternative rate (or component part thereof)) determined and applicable to the Notes pursuant to the earlier operation of this Condition 5B.4H;

“Relevant Nominating Body” means, in respect of any Original Reference Rate:

- (a) the central bank for the currency to which such Original Reference Rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of such Original Reference Rate; or
- (b) any working group or committee established, approved or sponsored by, chaired or co-chaired by or constituted at the request of (i) the central bank for the currency to which such Original Reference Rate relates, (ii) any central bank or other supervisory authority which is responsible for supervising the administrator of such Original Reference Rate, (iii) a group of the aforementioned central banks or other supervisory authorities or (iv) the Financial Stability Board or any part thereof;

“Successor Reference Rate” means the rate which has been formally published, endorsed, approved, recommended or recognised as a successor or replacement to the relevant Original Reference Rate by any Relevant Nominating Body;

5B.5 *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the Final Terms specify a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 5B above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the Final Terms specify a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 5B above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

5B.6 *Determination of Rate of Interest and calculation of Interest Amounts*

The Issue and Paying Agent or, in the case of Floating Rate Notes which are EONIA Linked Interest Notes, SONIA Linked Interest Notes, Federal Funds Rate Linked Interest Notes, CMS Linked Interest Notes, Compounded Daily SOFR Linked Interest Notes or Weighted Average SOFR Linked Interest Notes, the Calculation Agent, will at or as soon

as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Floating Rate Notes which are EONIA Linked Interest Notes, SONIA Linked Interest Notes, Federal Funds Rate Linked Interest Notes, CMS Linked Interest Notes, Compounded Daily SOFR Linked Interest Notes or Weighted Average SOFR Linked Interest Notes, the Calculation Agent will notify the Issue and Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Issue and Paying Agent or, in the case of Floating Rate Notes which are EONIA Linked Interest Notes, SONIA Linked Interest Notes, Federal Funds Rate Linked Interest Notes, CMS Linked Interest Notes, Compounded Daily SOFR Linked Interest Notes or Weighted Average SOFR Linked Interest Notes, the Calculation Agent, will calculate the amount of interest (the "Interest Amount") payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or
- (B) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

"Day Count Fraction" means, in respect of the calculation of an amount of interest for any Interest Period:

- (i) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if "Actual/365 (Fixed)" is specified in the Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if "Actual/365 (Sterling)" is specified in the Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

- (iv) if “Actual/360” is specified in the Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y - Y)] + [30 \times (M - M)] + (D - D)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (vi) if “30E/360” or “Eurobond Basis” is specified in the Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y - Y)] + [30 \times (M - M)] + (D - D)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30; and

- (vii) if “30E/360 (ISDA)” is specified in the Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y - Y)] + [30 \times (M - M)] + (D - D)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

5B.7 Linear Interpolation

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter

than the length of the relevant Interest Period and the other of which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Issuer shall determine such rate at such time and by reference to such sources as it determines appropriate.

“Designated Maturity” means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

5B.8 *Notification of Rate of Interest and Interest Amounts*

The Calculation Agent or, in the case of Floating Rate Notes which are EONIA Linked Interest Notes, SONIA Linked Interest Notes, Federal Funds Rate Linked Interest Notes, CMS Linked Interest Notes, Compounded Daily SOFR Linked Interest Notes or Weighted Average SOFR Linked Interest Notes, the Calculation Agent, will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and the Trustee and any stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to listing and to the Holders in accordance with Condition 14. For the purposes of this paragraph, the expression “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

5B.9 *Determination or calculation on default*

If for any reason at any relevant time the Issue and Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or to calculate any Interest Amount in accordance with Condition 5B.3 or 5B.4, as the case may be, and in each case in accordance with Conditions 5B.6 and 5B.7 the Issuer shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition 5B, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Issuer shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances. In making any such determination or calculation, the Issuer may appoint and rely on a determination or calculation by a calculation agent (which shall be an investment bank or other suitable entity of international repute). Each such determination or calculation shall be deemed to have been made by the Issue and Paying Agent or the Calculation Agent, as applicable.

5B.10 Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5B, whether by the Issue and Paying Agent or, if applicable, the Calculation Agent or (in the context of Condition 5B.4H only) an Independent Adviser shall (in the absence of manifest error) be binding on the Issuer, the Issue and Paying Agent, the Calculation Agent (if applicable), the other Paying Agents, the Trustee and all Holders and (in the absence of wilful default and bad faith) no liability to the Issuer or the Holders or any other person shall attach to the Issue and Paying Agent or, if applicable, the Calculation Agent or (in the context of Condition 5B.4H only) an Independent Adviser in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

5C Accrual of interest

Each Note (or, in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption (being the Maturity Date or any other date for redemption pursuant to these Conditions) unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

6. PAYMENTS

6.1 Method of payment

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account and which, in the case of a payment on a Note in bearer form for U.S. federal income tax purposes, shall be an account outside the United States, except as may be permitted by U.S. federal income tax law) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (in no event, however, shall payment in respect of a Note in bearer form for U.S. federal income tax purposes be made by cheque mailed to an address in the United States); and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement

described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “Code”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto.

6.2 Presentation of Bearer Notes and Coupons

Payments of principal in respect of Bearer Notes will (subject as provided below) be made in the manner provided in Condition 6.1 only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Bearer Notes, and payments of interest in respect of Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Notes in definitive bearer form (other than Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A “Long Maturity Note” is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

Payments of principal and interest (if any) in respect of Notes represented by any Temporary or Permanent Global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes and otherwise in the manner specified in the relevant Temporary or Permanent Global Note in bearer form, where applicable, against presentation or surrender, as the case may be, of such Temporary or Permanent Global Note in bearer form at the specified office of any Paying Agent outside the United States. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made either on such Temporary or Permanent Global Note in bearer form by the Paying Agent to which it was presented or in the records of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream, Luxembourg"), as applicable.

The Holder of a Temporary or Permanent Global Note in bearer form shall be the only person entitled to receive payments in respect of Notes represented by such Temporary or Permanent Global Note in bearer form and the Issuer will be discharged by payment to, or to the order of, the Holder of such Temporary or Permanent Global Note in bearer form in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg or any other clearing system as the beneficial holder of a particular nominal amount of Notes represented by such Temporary or Permanent Global Note in bearer form must look solely to Euroclear, Clearstream, Luxembourg or such other clearing system, as the case may be, for its share of each payment so made by the Issuer to, or to the order of, the Holder of such Temporary or Permanent Global Note in bearer form.

6.3 U.S. Paying Agent

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in US dollars, such US dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in US dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in US dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

6.4 Registered Notes

Payments of principal in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the Holder (or the first named of joint Holders) of the Registered Note appearing in the register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if: (i) a Holder does not have a Designated Account; or (ii) the nominal amount of the Registered Notes held by a Holder is less than US\$250,000 (or its approximate equivalent in any other Specified Currency) payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "Designated Account" means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a Holder with a Designated Bank and identified as such in the register and "Designated Bank" means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the Holder (or the first named of joint Holders) of the Registered Note appearing in the register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the "Record Date") at its address shown in the register on the Record Date and at its risk. Upon application of the Holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Notes which become payable to the Holder who has made the initial application until the Registrar is notified in writing to the contrary by such Holder. Payment of the interest due in respect of each Registered Note on redemption will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment

or being lost in the post. No commissions or expenses shall be charged to such Holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

6.5 Payment Day

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the Holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "Payment Day" means any day which (subject to Condition 9) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the relevant place of presentation (in the case of Notes in definitive form only), London and each Additional Financial Centre specified in the Final Terms; and
- (ii) either: (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

6.6 Interpretation of principal and interest

Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8 or under any undertaking given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7.5); and
- (vi) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 or under any undertaking given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

7. REDEMPTION AND PURCHASE

7.1 Redemption of Notes at Maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in the Final Terms in the relevant Specified Currency on the Maturity Date specified in the Final Terms.

7.2 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 14 (which notice shall be irrevocable), if immediately prior to the giving of such notice the Issuer satisfies the Trustee that the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political sub-division or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes and such obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

The Issuer shall be deemed to have satisfied the Trustee as referred to in the preceding paragraph if prior to the publication of any notice of redemption pursuant to this Condition 7.2, the Issuer shall have delivered to the Trustee: (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 7.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 7.2.

Notes redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.5 below together, if appropriate, with interest accrued to (but excluding) the date of redemption.

7.3 Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified as being applicable in the Final Terms, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Holders in accordance with Condition 14; and
- (ii) not less than 15 days before the giving of the notice referred to in (i) above, notice to the Issue and Paying Agent and the Trustee,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than a Higher Redemption Amount. In the case of a partial redemption of Notes in definitive form, the Notes to be redeemed ("Redeemed Notes") will be selected individually by lot not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "Selection Date"). A list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption.

For the purposes of this Condition 7.3, the Optional Redemption Amount shall be, as specified in the Final Terms, (i) the Make Whole Redemption Price or (ii) the amount per Calculation Amount specified in the Final Terms.

If Spens Amount is specified in the Final Terms, the Make Whole Redemption Price shall be an amount equal to the higher of (i) 100 per cent. of the principal amount outstanding of the Notes to be redeemed and (ii) the principal amount outstanding of the Notes to be redeemed multiplied by the price, as reported to the Issuer and the Trustee by the Determination Agent, at which the Gross Redemption Yield on such Notes on the Reference Date is equal to the Gross Redemption Yield (determined by reference to the middle market price) at the Quotation Time specified in the Final Terms on the Reference Date of the Reference Bond, plus the Redemption Margin, all as determined by the Determination Agent.

If Make Whole Redemption Amount is specified in the Final Terms, the Make Whole Redemption Price shall be an amount calculated by the Determination Agent equal to the higher of (i) 100 per cent. of the principal amount outstanding of the Notes to be redeemed and (ii) the sum of the present values of the principal amount outstanding of the Notes to be redeemed and the Remaining Term Interest on such Note (exclusive of interest accrued to the date of redemption) and such present values shall be calculated by discounting such amounts to the date of redemption on an annual basis (assuming a 360-day year consisting of twelve 30-day months or, in the case of an incomplete month, the number of days elapsed) at the Reference Bond Rate, plus the Redemption Margin.

In this Condition 7.3:

“Determination Agent” means an investment bank or financial institution of international standing selected by the Issuer after consultation with the Trustee;

“FA Selected Bond” means a government security or securities selected by the Determination Agent as having an actual or interpolated maturity comparable with the remaining term to the Maturity Date, that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the Specified Currency and of a comparable maturity to the remaining term to the Maturity Date;

“Gross Redemption Yield” means, with respect to a security, the gross redemption yield on such security, expressed as a percentage and calculated by the Determination Agent on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields”, page 4, Section One: Price/Yield Formulae “Conventional Gilts”; “Double dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published 8 June 1998, as amended or updated from time to time) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) or on such other basis as the Trustee may approve in consultation with any relevant expert (such expert to be selected by the Trustee and approved by the Issuer), whose fees shall be payable together with the Trustee’s fees by the Issuer;

“Redemption Margin” shall be as set out in the Final Terms;

“Reference Bond” shall be as set out in the Final Terms or the FA Selected Bond;

“Reference Bond Price” means, with respect to any date of redemption, (A) the arithmetic average of the Reference Government Bond Dealer Quotations for such Redemption Date, after excluding the highest and lowest such Reference Government Bond Dealer Quotations, or (B) if the Determination Agent obtains fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations;

“Reference Bond Rate” means, with respect to any Redemption Date, the rate per annum equal to the annual or semi-annual yield (as the case may be) to maturity or interpolated yield to maturity (on the relevant day count basis) of the Reference Bond, assuming a price for the Reference Bond (expressed as a percentage of its nominal amount) equal to the Reference Bond Price for such Redemption Date;

“Reference Date” will be set out in the relevant notice of redemption;

“Reference Government Bond Dealer” means each of five banks selected by the Issuer, or their affiliates, which are (A) primary government securities dealers, and their respective successors, or (B) market makers in pricing corporate bond issues;

“Reference Government Bond Dealer Quotations” means, with respect to each Reference Government Bond Dealer and any Redemption Date, the arithmetic average, as

determined by the Determination Agent, of the bid and offered prices for the Reference Bond (expressed in each case as a percentage of its nominal amount) at the Quotation Time specified in the Final Terms on the Reference Date quoted in writing to the Determination Agent by such Reference Government Bond Dealer; and

“Remaining Term Interest” means, with respect to any Note, the aggregate amount of scheduled payment(s) of interest on such Note for the remaining term to the Maturity Date determined on the basis of the rate of interest applicable to such Note from and including the Redemption Date.

7.4 Redemption at the option of the Holders of the Notes (Investor Put)

If Investor Put is specified as being applicable in the Final Terms, upon the Holder of any Note giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

If this Note is in definitive form, to exercise the right to require redemption of this Note the Holder of this Note must deliver such Note at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent and in which the Holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition.

7.5 Early Redemption Amount

For the purpose of Conditions 7.2 and 10, each Note will be redeemed at the Early Redemption Amount calculated as follows:

- (i) at the amount specified in the Final Terms or, if no such amount or manner is so specified in the Final Terms, at its nominal amount; or
- (ii) in the case of a Zero Coupon Note, at an amount (the “Amortised Face Amount”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

“RP” means the Reference Price;

“AY” means the Accrual Yield expressed as a decimal; and

“y” is the Day Count Fraction specified in the Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days

(calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

7.6 Purchases

The Issuer and any of its Subsidiaries may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, any unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise.

7.7 Cancellation

All Notes which are redeemed or purchased will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Issue and Paying Agent and cannot be re-issued or resold.

7.8 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 7.1, 7.2, 7.3 or 7.4 above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.5(ii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Note has been received by the Issue and Paying Agent, the Registrar or the Trustee, as the case may be, and notice to that effect has been given to the Holders in accordance with Condition 14.

8. TAXATION

All payments of principal and interest in respect of the Notes and Coupons by or on behalf of the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom, or any political sub-division of, or any authority of, or in, the United Kingdom having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the Holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of any requirement to make such withholding or deduction; except that no such additional amounts shall be payable in relation to any Note or Coupon:

- (i) presented for payment by, or on behalf of, a Holder who is liable for such taxes, duties or governmental charges in respect of such Note or Coupon by reason of its having some connection with the United Kingdom other than the mere holding of such Note or Coupon; or
- (ii) presented for payment by, or on behalf of, a Holder who would be able to avoid such withholding or deduction by complying with any statutory requirements (including, but not limited to, obtaining and/or presenting any form of certificate) or by making a declaration or any other statement or claim for exemption (including, but not limited to, a declaration of non-residence), but fails to do so; or
- (iii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6.5).

As used in these Conditions, the “Relevant Date” means the date on which such payment first becomes due and payable, except that, if the full amount of the moneys payable has not been duly received by the Issue and Paying Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Holders in accordance with Condition 14.

9. PRESCRIPTION

Claims in respect of principal and interest or other sums payable hereunder will be prescribed unless made within 10 years (in the case of principal) or five years (in the case of interest) from the Relevant Date (as defined in Condition 8) in relation thereto, subject to the provisions of Condition 6.2.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition 9 or Condition 6.2 or any Talon which would be void pursuant to Condition 6.2.

10. EVENTS OF DEFAULT AND ENFORCEMENT

The Trustee at its discretion may, and if so requested in writing by the Holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Holders shall (subject to in each case being indemnified and/or secured and/or prefunded to its satisfaction in accordance with Clause 10 of the Trust Deed), (but, in the case of the happening of any of the events mentioned in paragraphs (ii), (v), (vi) and (vii) below in relation to the Issuer and (iii) to (vii) below (inclusive) in relation to the Principal Subsidiary, only if the Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the Holders) give notice to the Issuer that the Notes are, and they shall accordingly immediately become, due and repayable at their Early Redemption Amount (as referred to in Condition 7.5), together with accrued interest as provided in the Trust Deed, if any of the following events shall occur and be continuing:

- (i) if default is made for a period of 14 days or more in the payment of any principal or interest due in respect of the Notes or any of them; or
- (ii) if default is made by the Issuer in the performance or observance of any obligation, condition or provision binding upon it under the Notes or the Trust Deed (other than any obligation for the payment of any principal or interest in respect of the Notes) and, except where such default is, in the opinion of the Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30 days (or such longer period as the Trustee may permit) after written notice thereof has been given by the Trustee to the Issuer requiring the same to be remedied; or
- (iii) if an order is made or an effective resolution is passed for the winding-up of, or an administration order is made in relation to, the Issuer or the Principal Subsidiary (save, in the case of the Principal Subsidiary, (a) with the prior written consent of the Trustee or the prior sanction of an Extraordinary Resolution of the Holders for the purposes of or in connection with an amalgamation or reconstruction, or (b) a voluntary solvent winding-up where surplus assets are available for distribution); or
- (iv) if the Issuer or the Principal Subsidiary stops or threatens to stop payment to its creditors generally or the Issuer or the Principal Subsidiary ceases or threatens to cease to carry on its business or substantially the whole of its business (except for the purposes of, or in connection with, a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee or an Extraordinary Resolution of the Holders or, in the case of the Principal Subsidiary, such a winding-up as is referred to in (iii)(b) above); or

- (v) if an encumbrancer takes possession or an administrative or other receiver or an administrator is appointed of the whole or any substantial part of the undertaking, property and assets of the Issuer or the Principal Subsidiary or if a distress or execution is levied or enforced upon or sued out against the whole or any substantial part of the chattels or property of the Issuer or the Principal Subsidiary and, in the case of any of the foregoing events, is not discharged within 60 days or such longer period as the Trustee may allow; or
- (vi) if the Issuer or the Principal Subsidiary is unable to pay its debts within the meaning of Section 123(2) of the Insolvency Act 1986; or
- (vii) if any indebtedness for moneys borrowed (as defined below) of the Issuer or the Principal Subsidiary (which indebtedness in respect of any single company has an outstanding aggregate principal amount of at least £30,000,000 (or its equivalent in any other currency or currencies)) is not paid on its due date as extended by any applicable grace period and following a demand therefor or is declared to be or automatically becomes due and payable prior to its stated maturity by reason of default or if any guarantee or indemnity in respect of indebtedness for moneys borrowed of any third party given by the Issuer or the Principal Subsidiary (having in respect of any single company an outstanding aggregate principal amount as aforesaid) is not honoured when due and called upon and, in any such case, the liability of the Issuer or the Principal Subsidiary, as the case may be, to make payment is not being contested in good faith.

“Indebtedness for moneys borrowed” means the principal amount of (a) all moneys borrowed and (b) all debentures (together in each case with any fixed or minimum premium payable on final redemption or repayment) which are not for the time being beneficially owned by Prudential or any of its Subsidiaries.

The Trustee may at its discretion institute such proceedings as it may think fit to enforce the obligations of the Issuer under the Trust Deed, the Notes and the Coupons but it shall not be bound to institute any such proceedings or take any other action under or pursuant to the Trust Deed unless (a) it shall have been so directed by an Extraordinary Resolution of the Holders or so requested in writing by the Holders of at least one-quarter in nominal amount of the Notes then outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction in accordance with Clause 10 of the Trust Deed. No Holder shall be entitled to institute proceedings directly against the Issuer unless the Trustee having become bound so to proceed fails to do so within a reasonable time and such failure is continuing.

11. REPLACEMENT OF NOTES, COUPONS AND TALONS

Should any Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Issue and Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or

defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

12. PAYING AGENTS

The name of the initial Paying Agents and their specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the Final Terms.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be an Issue and Paying Agent and, in respect of Registered Notes, a Registrar; and
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority.

In addition, the Issuer shall appoint a Paying Agent approved in writing by the Trustee having a specified office in New York City in the circumstances described in Condition 6.3. Notice of any variation, termination, appointment or change in Paying Agents will be given to Holders promptly by the Issuer in accordance with Condition 14.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and, in certain limited circumstances, the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Holders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

13. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Issue and Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14. NOTICES

All notices regarding Bearer Notes shall be published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be

made in the Financial Times. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to listing. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of publication in the last of such newspapers.

Notices to Holders of Registered Notes will be deemed to be validly given if sent by first class mail (or equivalent) or (if posted to an overseas address) by air mail to them (or, in the case of joint Holders, to the first-named in the register kept by the Registrar) at their respective addresses as recorded in the register kept by the Registrar, and will be deemed to have been validly given on the fourth weekday after the date of such mailing or, if posted from another country, on the fifth such day.

Notices to be given by any Holder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Issue and Paying Agent.

15. MEETINGS OF HOLDERS, MODIFICATION, WAIVER, DETERMINATION AND SUBSTITUTION ETC.

15.1 Meetings

The Trust Deed contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes and the Coupons relating to them or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer and shall be convened by the Issuer upon the request of Holders holding not less than 5 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing more than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or the Coupons or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting and on all Holders of Coupons.

The Trust Deed contains provisions for an Extraordinary Resolution to take the form of an instrument or instruments signed by the Holder or the Holders of not less than three-quarters in nominal amount of the Notes for the time being outstanding.

15.2 Modifications

The Trustee may agree, without the consent of the Holders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or determine that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of the Holders or to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which, in the opinion of the Trustee, is proven.

Any modification, waiver, authorisation or determination shall be binding on the Holders and, unless the Trustee agrees otherwise, shall be notified by the Issuer to the Holders as soon as practicable thereafter in accordance with Condition 14.

The Trustee shall be obliged to concur with the Issuer in effecting any amendments to the interest calculation provisions and provisions related thereto of the Notes in the circumstances and as otherwise set out in Condition 5B without the requirement for the consent or sanction of the Holders or Couponholders.

15.3 Substitution

- (a) Subject as provided in the Trust Deed, the Trustee, if it is satisfied that to do so would not be materially prejudicial to the interests of the Holders, may agree with the Issuer, without the consent of the Holders, to the substitution in place of the Issuer as principal debtor under the Trust Deed, the Notes and the Coupons of:
 - (i) any Subsidiary of the Issuer; (ii) any successor in business of the Issuer; (iii) any Holding Company of the Issuer; or (iv) any other Subsidiary of such Holding Company provided that except where the new principal debtor is the successor in business or Holding Company of the Issuer the obligations of such new principal debtor under the Trust Deed, the Notes and the Coupons shall be unconditionally and irrevocably guaranteed by the Issuer or its Holding Company.
- (b) Any substitution in accordance with the provisions of this Condition 15.3 shall be binding on the Holders and, unless the Trustee agrees otherwise, any such substitution shall be notified by the Issuer to the Holders as soon as practicable thereafter in accordance with Condition 14.

In this Condition 15.3:

“Holding Company” means a parent undertaking within the meaning set out in section 1162 of the Companies Act 2006;

15.4 Exercise of Trustee’s powers and discretions

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Holders as a

class but shall not have regard to any interests arising from circumstances particular to individual Holders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers, authorities or discretions for individual Holders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Holder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Holders, except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

16. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Holders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes. The Trust Deed contains provisions for convening a single meeting of the Holders and the holders of the notes of other series in circumstances where the Trustee so decides.

17. Governing Law

The Trust Deed, the Notes and the Coupons (and any non-contractual obligations arising therefrom or in connection therewith) shall be governed by, and construed in accordance with, English law.

18. Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

TERMS AND CONDITIONS OF THE TIER 2 NOTES

The following, except for paragraphs in italics (which are in the nature of explanatory notes and do not form part of the Terms and Conditions of the Tier 2 Notes), are the Terms and Conditions of the Tier 2 Notes (the “Notes”) which, as completed in accordance with the provisions of Part A of the applicable Final Terms, will be applicable to each Tranche of Notes. Either: (i) the full text of these Terms and Conditions together with the relevant provisions of Part A of the Final Terms; or (ii) these Terms and Conditions as so completed, shall be endorsed on the Bearer Notes (as defined below) or on the certificates relating to the Registered Notes (as defined below). Certain provisions relating to such Notes while in global form, and certain modifications of these Terms and Conditions applicable to such Notes while in global form, are described in the section entitled “Provisions relating to the Notes while in Global Form”.

This Note is issued by M&G plc the (“Issuer”) and is one of a Series (as defined below) of Notes constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the “Trust Deed”) dated 20 December 2019 and made between the Issuer and The Law Debenture Trust Corporation p.l.c. as trustee (the “Trustee”, which expression shall include any successor trustee) for the Holders (as defined below) of such Notes. References herein to the “Notes” shall be references to the Notes of this Series. As used herein, “Tranche” means Notes which are identical in all respects (including as to listing) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are: (i) expressed to be consolidated and form a single series; and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Notes and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as modified and/or supplemented and/or restated from time to time, the “Agency Agreement”) dated 20 December 2019 and made between the Issuer, Citibank, N.A., London Branch as issuing and principal paying agent and agent bank (the “Issue and Paying Agent”, which expression shall include any successor agent), Citibank, N.A., London Branch as registrar in respect of Notes in registered form and as paying agent (the “Registrar”, which expression shall include any successor registrar and together with the Issue and Paying Agent, unless the context otherwise requires, the “Paying Agents”, which expression shall include any additional or successor paying agents) and the Trustee.

The Final Terms for this Note (or the relevant provisions thereof) are attached to or endorsed on this Note and complete these Terms and Conditions (these “Conditions”) for the purposes of this Note. References to the “Final Terms” are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Copies of the Trust Deed and the Agency Agreement are available for inspection on weekdays during normal business hours at the registered office of the Issuer, the registered office for the time being of the Trustee (being at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified office of the Issue and Paying Agent. Copies of the Final Terms are available for viewing on weekdays during normal business hours at the registered office for the time being of the Issuer, the registered office for the time being of the Trustee and the specified office of the Issue and Paying Agent. In addition, copies of each Final Terms relating to Notes which are admitted to trading on the London Stock Exchange’s regulated market will be published on the website of the London Stock Exchange through a regulatory information service. Copies of each Final Terms

relating to Notes which are admitted to trading on any other regulated market in the European Economic Area will be published in accordance with Article 21(2) of Regulation (EU) 2017/1129 and the rules and regulations of the relevant regulated market. The Holders are deemed to have notice of, are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, the Agency Agreement and the Final Terms which are applicable to them. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed.

Words and expressions defined in the Trust Deed, the Agency Agreement or used in the Final Terms shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed, the Agency Agreement and the Final Terms, the Final Terms will prevail.

1. Form and Denomination

1.1 Form

Notes are issued in bearer form ("Bearer Notes") or in registered form ("Registered Notes"), as specified in the Final Terms, serially numbered and in the currency (the "Specified Currency") and the denomination(s) (the "Specified Denomination(s)") specified in the Final Terms, provided that, in the case of Notes which are to be admitted to trading on a regulated market within the European Economic Area, the minimum Specified Denomination shall be €1,000 (or its equivalent in any other currency as at the date of issue of the relevant Note). Registered Notes are not exchangeable for Bearer Notes or vice versa. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

1.2 Coupons and Talons

Interest-bearing definitive Bearer Notes have attached thereto, at the time of their initial delivery, coupons ("Coupons"), presentation of which will be a prerequisite to the payment of interest save in certain circumstances specified herein. In addition, such Notes may have attached thereto, at the time of their initial delivery, a talon ("Talon") for further coupons and the expression "Coupons" shall, where the context so requires, include Talons.

1.3 Interest basis

This Note may be a Fixed Rate Note, a Floating Rate Note (which term shall include an EONIA Linked Interest Note, a SONIA Linked Interest Note, a Federal Funds Rate Linked Interest Note, a CMS Linked Interest Note, a Compounded Daily SOFR Linked Interest Note or a Weighted Average SOFR Linked Interest Note if this Note is specified as such in the Final Terms), a Reset Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the Final Terms.

The Solvency II Regulations require that the Notes may only include limited incentives for the Issuer to exercise a right of early redemption in respect of the Notes. Such incentives

may include an increase in the rate of interest applicable to the Notes that does not occur prior to the tenth anniversary of the Issue Date of the Notes.

To satisfy these requirements, where an increase in the rate of interest applicable to the Notes takes effect on or following the tenth anniversary of the Issue Date of the Notes, the rate of interest applicable to the Notes following such increase shall be no greater than the higher of (i) 100 basis points, less the swap spread between the initial index basis and the stepped-up index basis, and (ii) 50 % of the initial credit spread, less the swap spread between the initial index basis and the stepped-up index basis, or otherwise in compliance with the Capital Regulations applicable to Tier 2 Capital from time to time.

1.4 Denomination of Bearer Notes

Bearer Notes are in the Specified Denomination or Specified Denominations specified in the Final Terms.

1.5 Denomination of Registered Notes

Registered Notes are in the minimum Specified Denomination or Specified Denominations specified in the Final Terms or integral multiples thereof.

1.6 Currency of Notes

The Notes are denominated in the Specified Currency specified in the Final Terms. Any currency may be so specified, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

2. Title and Transfer

2.1 Title to Bearer Notes

Title to Bearer Notes and Coupons passes by delivery. References herein to the “Holders” in relation to Bearer Notes or Coupons are to the bearers of such Bearer Notes or such Coupons.

2.2 Title to Registered Notes

Title to Registered Notes passes by registration in the register which the Issuer shall procure to be kept by the Registrar. References herein to the “Holders” in relation to Registered Notes are to the persons in whose names such Registered Notes are so registered in the relevant register.

2.3 Holder as owner

The Holder of any Bearer Note, Coupon or Registered Note will (except as otherwise required by applicable law or any regulatory requirement) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership,

trust or any interest thereof or therein, any writing thereon or any theft or loss thereof) and no person shall be liable for so treating such Holder.

2.4 Transfer of Registered Notes

A Registered Note may, upon the terms and subject to the conditions set forth in the Agency Agreement, be transferred in whole or in part (provided that such part is, or is an integral multiple of, the minimum Specified Denomination specified in the Final Terms) upon the surrender of the Registered Note to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar. A new Registered Note will be issued to the transferee and, in the case of a transfer of part only of a Registered Note, a new Registered Note in respect of the balance not transferred will be issued to the transferor.

2.5 New Registered Notes

Each new Registered Note to be issued upon the transfer of a Registered Note will, within five Relevant Banking Days of the Transfer Date, be available for collection by each relevant Holder at the specified office of the Registrar or, at the option of the Holder requesting such transfer, be mailed (by uninsured post at the risk of the Holder(s) entitled thereto) to such address as may be specified by such Holder. For these purposes, a form of transfer received by the Registrar after the Record Date in respect of any payment due in respect of Registered Notes shall be deemed not to be effectively received by the Registrar until the day following the due date for such payment.

2.6 No charges upon transfer

The issue of new Registered Notes on transfer will be effected without charge by or on behalf of the Issuer or the Registrar, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer or the Registrar may require in respect of) any tax, duty or other governmental charge of whatsoever nature which may be levied or imposed in relation thereto.

2.7 144A Legend

- (a) Upon the transfer or replacement of Definitive Registered Notes or Rule 144A Global Notes bearing the 144A legend (the “144A Legend”) set forth in the relevant form of Registered Note scheduled to the Trust Deed, or upon specific request for removal of the 144A Legend, the Registrar shall deliver only Registered Notes that also bear such legend unless there is delivered to the Issuer and the Registrar such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of counsel experienced in giving opinions with respect to questions arising under the securities laws of the United States, that neither such legend nor the restrictions on transfer set forth therein are required in order to maintain compliance with the provisions of such laws.

- (b) The Issuer covenants and agrees that it will not acquire any beneficial interest, and will cause its affiliates not to acquire any beneficial interest, in any Registered Note bearing the 144A Legend unless it notifies the Registrar of such acquisition. Each Paying Agent, the Registrar, the Trustee and all Holders shall be entitled to rely without further investigation on any such notification (or lack thereof).

2.8 Information to Holders

For so long as any of the Registered Notes bearing the 144A Legend remains outstanding and is a “restricted security” within the meaning of Rule 144(a)(3) under the United States Securities Act of 1933 (the “Securities Act”), the Issuer covenants and agrees that it shall, during any period in which it is not subject to Section 13 or 15(d) under the United States Securities Exchange Act 1934, as amended (the “Exchange Act”), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any Holder at the specified office of each of the Paying Agents and the Registrar in connection with any sale thereof and any prospective purchaser of such Notes from such Holder, in each case upon request, the information specified in, and meeting the requirements of, Rule 144A(d)(4) in relation to it, under the Securities Act.

3. Status of the Notes

The Notes and any relative Coupons constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves.

4. Regulatory capital

4.1 Regulatory capital status

The Notes are intended to constitute Tier 2 Capital of the Issuer and of the Group from time to time. More particularly, it is intended that this Note should constitute Tier 2 Own Funds of the Issuer and of the Group as at the Issue Date of this Note.

4.2 Regulatory capital conditions

These Conditions and the Final Terms shall be subject to, and shall be qualified in their entirety by, the terms and conditions set out in this Condition 4. Nothing in any other Condition or provision of the Final Terms shall, nor shall it be implied to, modify or amend the terms and conditions set out in this Condition 4 at any time.

4.3 Minimum maturity of Dated Notes

Unless previously redeemed, substituted or purchased and cancelled in compliance with the requirements of this Condition 4, the Maturity Date of Dated Notes shall occur no earlier than the tenth anniversary of the Issue Date of those Notes.

4.4 Subordination

The rights of Holders of the Notes and any relative Coupons against the Issuer to payment of any amounts under or arising from the Notes, any relative Coupons and the Trust Deed relating to them or arising therefrom are, in the event of the winding-up of the Issuer, subordinated in the manner provided in the Trust Deed to the claims of all Senior Creditors, but shall rank at least *pari passu* with all other obligations of the Issuer which constitute or would, but for any applicable limitation on the amount of such capital, constitute Tier 2 Capital and in priority to those whose claims constitute or would, but for any applicable limitation on the amount of such capital, constitute Tier 1 Capital and in priority to the claims of holders of all classes of share capital of the Issuer.

4.5 Solvency Condition

- (a) All payments under or arising from the Notes, the Coupons or the Trust Deed relating to them or arising therefrom, other than payments to the Trustee made in accordance with the Trust Deed in respect of, *inter alia*, the Trustee's fees, and remuneration and expenses and liabilities incurred by the Trustee in carrying out its duties under the Trust Deed, shall be conditional upon the Issuer satisfying the Solvency Condition both at the time of, and immediately after, any such payment.
- (b) The Issuer will not make any payment and any such payment shall not be payable under or arising from the Notes, the Coupons or the Trust Deed relating to them or arising therefrom unless the Issuer satisfies the Solvency Condition both at the time of, and immediately after, any such payment. For this purpose, the Issuer shall satisfy the Solvency Condition if:
 - (i) it is able to pay its debts to all Senior Creditors, the Holders of the Notes and the holders of any Parity Securities, as they fall due; and
 - (ii) its total Assets exceed total Liabilities, other than Liabilities to persons that are neither Senior Creditors nor the Holders of the Notes nor the holders of Parity Securities, by at least 4 per cent. or such other percentage specified by the PRA from time to time as the Regulatory Capital Requirement.
- (c) A report as to the solvency of the Issuer by two Directors of the Issuer or, in certain circumstances as provided in the Trust Deed, the Auditors, or, if there is a winding-up of the Issuer in England and Wales, the liquidator of the Issuer shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee and the Holders of the Notes and any relative Coupons as correct and sufficient evidence thereof.

If the Issuer does not satisfy the Solvency Condition both at the time of, and immediately after, payment, the amount of any payments which would otherwise have been payable in respect of the Notes, but are not paid by reason of the Solvency Condition not being satisfied, will be available to meet losses of the Issuer.

4.6 Solvency Capital Requirement and Minimum Capital Requirement

- (a) All payments under or arising from the Notes, the Coupons or the Trust Deed relating to them or arising therefrom, other than payments to the Trustee made in accordance with the Trust Deed in respect of, *inter alia*, the Trustee's fees, and remuneration and expenses and liabilities incurred by it in carrying out its duties under the Trust Deed, shall, unless otherwise permitted by the PRA, be conditional upon both the Solvency Capital Requirement and the Minimum Capital Requirement being met both at the time of, and immediately after, any such payment.
- (b) Unless otherwise permitted by the PRA, the Issuer will not make any payment and any such payment shall not be payable under or arising from the Notes, the Coupons or the Trust Deed relating to them or arising therefrom, unless both the Solvency Capital Requirement and the Minimum Capital Requirement are met both at the time of, and immediately after, any such payment.
- (c) A report as to the Issuer's compliance with the Solvency Capital Requirement or the Minimum Capital Requirement (or both) signed by two Directors of the Issuer or, if there is a winding-up of the Issuer in England and Wales, the liquidator of the Issuer shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee and the Holders of the Notes and any relative Coupons as correct and sufficient evidence thereof.

If the Solvency Capital Requirement or the Minimum Capital Requirement is (or both are) not met, the amount of any payments which would otherwise have been payable in respect of the Notes, but are not paid by reason of the Solvency Capital Requirement or the Minimum Capital Requirement (or both) not being satisfied, will be available to meet losses of the Issuer.

4.7 Arrears of Interest

- (a) If the Issuer does not make any interest payment as a result of the Issuer not satisfying the Solvency Condition, or either the Solvency Capital Requirement or the Minimum Capital Requirement (or both) not being met, both at the time of, and immediately after, such payment, or (where Insolvent Insurer Winding-up Condition is specified as applicable in the Final Terms) because an Insolvent Insurer Winding-up has occurred and is continuing on the relevant payment date, or following an election made by the Issuer pursuant to Condition 6 or Condition 7, that payment shall constitute Arrears of Interest until paid.
- (b) No interest will accrue on Arrears of Interest.
- (c) Arrears of Interest may be paid in whole or in part (as specified in the notice given by the Issuer) at any time upon the Issuer giving notice thereof to the Trustee and the Issue and Paying Agent in writing and to the Holders in accordance with Condition 21 not less than five Business Days prior to the proposed date for payment.

- (d) Arrears of Interest will become payable in full on the redemption of the Notes or purchase of the Notes by or on behalf of the Issuer or, subject to the provisions of Conditions 4.4, 4.5 and 4.6, upon the commencement of the winding-up of the Issuer, but so that in the case of payment of only part of the Arrears of Interest, the interest accrued during any Interest Period shall not be paid prior to that accrued during an earlier Interest Period.
- (e) Unless otherwise permitted by the PRA, the Issuer will not pay any amount in respect of Arrears of Interest and any such payment shall not be payable under or arising from the Notes, the Coupons or the Trust Deed relating to them or arising therefrom, unless the Issuer satisfies the Solvency Condition, and both the Solvency Capital Requirement and the Minimum Capital Requirement are met, both at the time of, and immediately after, any such payment, and (where Insolvent Insurer Winding-up Condition is specified as applicable in the Final Terms) no Insolvent Insurer Winding-up has occurred and is continuing on the proposed date for payment.

4.8 Conditions to redemption, variation, substitution, conversion and purchase

- (a) Except as otherwise indicated to the Issuer by the PRA, the Issuer may not redeem, vary, substitute, convert or purchase any Notes unless the Issuer has given prior notice to the PRA and the PRA has given its prior approval or consented in the form of a waiver or otherwise to such redemption, variation, substitution, conversion or purchase, in each case in accordance with, and to the extent required under, the Capital Regulations applicable in relation to Tier 2 Capital.
- (b) Neither the Issuer nor any Subsidiary may redeem or purchase any Notes unless on and immediately after the relevant Redemption Date or date on which the Notes are to be purchased:
 - (i) the Issuer is in compliance with the Regulatory Capital Requirement;
 - (ii) the Issuer satisfies the Solvency Condition;
 - (iii) both the Solvency Capital Requirement and the Minimum Capital Requirement are met; and
 - (iv) no Insolvent Insurer Winding-up has occurred and is continuing,
 or, in each case, as otherwise permitted by the PRA.
- (c) The PRA may impose further conditions on any redemption, variation, substitution, conversion or purchase at the relevant time.
- (d) The Trustee shall be entitled to rely on a certificate signed by two Directors of the Issuer as to whether or not the conditions to redemption, substitution, variation or purchase are met, including as to whether an Insolvent Insurer Winding-up has

occurred and is continuing and, if the Trustee does so rely, such certificate shall, in the absence of manifest error, be conclusive and binding on the Holders.

4.9 Postponement of Redemption Date

- (a) If redemption of the Notes is to be postponed as a result of one or more of the conditions set out in Condition 4.8 not being met, the Issuer shall notify the Trustee and the Issue and Paying Agent in writing and notify the Holders in accordance with Condition 21 no later than two Business Days prior to the scheduled Redemption Date (or as soon as reasonably practicable if the relevant circumstance requiring redemption to be deferred arises, or is determined, less than two Business Days prior to the Redemption Date).
- (b) If redemption does not occur on the relevant Redemption Date as a result of the Issuer not satisfying the Solvency Condition both on, and immediately after, the relevant Redemption Date, or because the PRA has not given its prior approval or consented in the form of a waiver or otherwise to such redemption in accordance with, and to the extent required under, the Capital Regulations applicable in relation to Tier 2 Capital, the Notes shall be redeemed at their principal amount outstanding or, if applicable, the Make Whole Redemption Price, on the date falling 10 Business Days after the first date following the relevant Redemption Date on which the Issuer satisfies the Solvency Condition and would continue to do so if the Notes were redeemed on such date and on which the PRA has given its prior approval or consented in the form of a waiver or otherwise to such redemption in accordance with, and to the extent required under, the Capital Regulations applicable in relation to Tier 2 Capital.
- (c) No interest will accrue on any amounts not paid on the Notes as a result of the Issuer not satisfying the Solvency Condition both on and immediately after the relevant Redemption Date, provided, however, that interest will accrue at the rate of interest specified in Condition 8 (in the case of Fixed Rate Notes), Condition 9 (in the case of Reset Notes), Condition 10 (in the case of Floating Rate Notes) or Condition 11 (in the case of Fixed/Floating Rate Notes) on such amounts from (and including) the 14th day following the date on which such amounts become due and payable as set out in paragraph (b) of this Condition 4.9 to (but excluding) the date on which such amounts are paid.
- (d) If redemption does not occur on the Redemption Date as a result of either the Solvency Capital Requirement or the Minimum Capital Requirement (or both) not being met both on, and immediately after, the relevant Redemption Date, or because an Insolvent Insurer Winding-up has occurred and is continuing on the relevant Redemption Date, the Notes shall be redeemed at their principal amount outstanding or, if applicable, the Make Whole Redemption Price upon the earlier of:
 - (i) the date falling 10 Business Days after the first date following the relevant Redemption Date on which both the Solvency Capital Requirement and the Minimum Capital Requirement are met and would continue to be met

if the Notes were redeemed on such date, and on which no Insolvent Insurer Winding-up has occurred and is continuing;

- (ii) the date falling 10 Business Days after the date on which the PRA has notified the Issuer of its waiver of the suspension of or agreement to the repayment or redemption of the Notes; and
- (iii) the date on which an order is made, or an effective resolution is passed, for the winding-up in England and Wales of the Issuer (except a solvent winding-up solely for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer the terms of which reconstruction, amalgamation or substitution:
 - (A) have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed); and
 - (B) do not provide that the Notes shall thereby become payable).
- (e) No interest will accrue on any amounts not paid on the Notes as a result of either the Solvency Capital Requirement or the Minimum Capital Requirement (or both) not being met both on, and immediately after, the relevant Redemption Date or because an Insolvent Insurer Winding-up has occurred and is continuing on the relevant Redemption Date, provided, however, that interest will accrue at the rate of interest specified in Condition 8 (in the case of Fixed Rate Notes), Condition 9 (in the case of Reset Notes), Condition 10 (in the case of Floating Rate Notes) or Condition 11 (in the case of Fixed/Floating Rate Notes) on such amounts from (and including) the 14th day following the date on which such amounts become due and payable as set out in paragraph (d) of this Condition 4.9 to (but excluding) the date on which such amounts are paid.
- (f) The Issuer shall notify the Trustee and the Issue and Paying Agent in writing and notify the Holders in accordance with Condition 21 no later than five Business Days prior to the date on which the Notes are due to be redeemed pursuant to paragraph (b) or paragraph (d) of this Condition 4.9 of the revised Redemption Date.
- (g) The Issuer may not redeem any Notes pursuant to this Condition 4.9 unless the conditions to redemption set out in Condition 4.8 are met in respect of the revised Redemption Date.

4.10 No default

If the Issuer fails to pay any amount under or arising from the Notes, any relative Coupons and the Trust Deed relating to them:

- (i) in respect of which the Issuer does not satisfy the Solvency Condition, or either the Solvency Capital Requirement or the Minimum Capital Requirement is (or

both are) not met, both at the time of, and immediately after, the time at which the same would otherwise be due and payable;

- (ii) (where Insolvent Insurer Winding-up Condition is specified as applicable in the Final Terms) because an Insolvent Insurer Winding-up has occurred and is continuing on the proposed date for payment; or
- (iii) because any of the other conditions in Condition 4.8 are not met,

such failure to pay shall not constitute a default for any purpose (including, but without limitation, Condition 17) on the part of the Issuer.

4.11 Solvency Claims

- (a) Without prejudice to the rest of these Conditions, amounts representing payments of any amount under or arising from the Notes, any relative Coupons and the Trust Deed relating to them in respect of which the Issuer does not satisfy the Solvency Condition, or either the Solvency Capital Requirement or the Minimum Capital Requirement is (or both are) not met, both at the time of, and immediately after, the time at which the same would otherwise be due and payable ("Solvency Claims"), or an Insolvent Insurer Winding-up has occurred and is continuing on the relevant payment date (as applicable), will be payable by the Issuer in a winding-up of the Issuer as provided in Condition 4.4.
- (b) A Solvency Claim shall not bear interest, except in the limited circumstances referred to in Condition 4.9.

4.12 Set-off and counterclaim

By acceptance of the Notes, each Holder of the Notes and the Trustee, on behalf of such Holders, will be deemed to have waived any right of set-off or counterclaim that such Holders might otherwise have against the Issuer whether prior to or in bankruptcy or winding-up. Notwithstanding the preceding sentence, if any of the rights and claims of any Holder of the Notes are discharged by set-off, such Holder will immediately pay an amount equal to the amount of the rights and claims so discharged to the Issuer or, if applicable, the liquidator or the Trustee and, until payment is made, will hold a sum equal to such amount on trust for the Issuer or, if applicable, the liquidator or the Trustee in the Issuer's winding-up. Accordingly, such discharge will be deemed not to have taken place.

4.13 Events of default and enforcement

- (a) No remedy shall be available to the Trustee or any Holder against the Issuer, whether for the recovery of amounts owing in respect of the Notes, the Coupons or under the Trust Deed relating to them or arising therefrom or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes, the Coupons or under the Trust Deed relating to them or arising therefrom, other than as provided for in Condition 17.

- (b) Notwithstanding any other provisions of these Conditions, the right to institute winding-up proceedings in respect of the Issuer is limited to circumstances where payment of amounts owing in respect of the Notes, the Coupons or under the Trust Deed relating to them or arising therefrom or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes, the Coupons or under the Trust Deed relating to them or arising therefrom, has become due.
- (c) No amount owing in respect of the Notes, the Coupons or under the Trust Deed relating to them or arising therefrom or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes, the Coupons or under the Trust Deed relating to them or arising therefrom shall be due if the Issuer does not satisfy the Solvency Condition, or either the Solvency Capital Requirement or the Minimum Capital Requirement is (or both are) not satisfied both at the time of, and immediately after, the time at which the same would otherwise be due and payable, or if the Issuer has elected or is required (as applicable) to defer the payment of such amount pursuant to Condition 5, Condition 6 or Condition 7.
- (d) The Trust Deed contains provisions entitling the Trustee to claim from the Issuer, *inter alia*, its fees and remuneration and the expenses and liabilities incurred by it in carrying out its duties under the Trust Deed. The provisions as to subordination and the restrictions on commencing proceedings described below will not apply to any such claims.

5. Insolvent Insurer Winding-up

- (a) This Condition 5 is applicable to the Notes only if Insolvent Insurer Winding-up Condition is specified as applicable in the Final Terms.
- (b) All payments under or arising from the Notes, the Coupons or the Trust Deed relating to them or arising therefrom, other than payments to the Trustee made in accordance with the Trust Deed in respect of, *inter alia*, the Trustee's fees, and remuneration and expenses and liabilities incurred by it in carrying out its duties under the Trust Deed, shall, unless otherwise permitted by the PRA, be conditional upon no Insolvent Insurer Winding-up having occurred that is continuing at the time of any such payment.
- (c) Unless otherwise permitted by the PRA, the Issuer will not make any payment and any such payment shall not be payable under or arising from the Notes, the Coupons or the Trust Deed relating to them or arising therefrom, if an Insolvent Insurer Winding-up has occurred and is continuing at the time of any such payment.
- (d) The Trustee shall be entitled to rely on a certificate signed by two Directors of the Issuer as to whether or not an Insolvent Insurer Winding-up has occurred and is continuing and, if the Trustee does so rely, such certificate shall, in the absence of manifest error, be conclusive and binding on the Holders.

6. Deferral of Interest Payments – Issuer Discretion

- (a) This Condition 6 is applicable to the Notes only if Optional Interest Deferral is specified as applicable in the Final Terms.
- (b) The Issuer may, by giving notice thereof to the Trustee and the Issue and Paying Agent in writing and to the Holders of the Notes in accordance with Condition 21 not more than 16 nor less than two Business Days prior to the relevant Interest Payment Date, elect to defer interest payments on the Notes:
 - (i) where Dividend and Capital Restriction is specified as not applicable in the Final Terms, on any Interest Payment Date; and
 - (ii) where Dividend and Capital Restriction is specified as applicable in the Final Terms, on any Interest Payment Date which is not a Compulsory Interest Payment Date,

provided that the Issuer may not give such notice if, at the time such notice is proposed to be given, a Regulatory Event has occurred and has been subsisting at such time for a continuous period of 180 days or more. For the purposes of this Condition 6(b), the Trustee shall be entitled to accept a certificate, signed by two Directors of the Issuer, stating that no Regulatory Event has occurred and has been subsisting at such time for a continuous period of 180 days or more as sufficient evidence thereof, in which event it shall be conclusive and binding on the Holders.

- (c) Notwithstanding any other provision in these Conditions or the Trust Deed, any payment which for the time being is not made on Notes by virtue of this Condition 6 shall not constitute a default for any purpose (including, but without limitation, Condition 17) on the part of the Issuer.

7. Deferral of Interest Payments – Capital Adequacy Condition

- (a) This Condition 7 is applicable to the Notes only if Capital Adequacy Interest Deferral is specified as applicable in the Final Terms.
- (b) The Issuer may, by giving notice thereof to the Trustee and the Issue and Paying Agent in writing and to the Holders of the Notes in accordance with Condition 21 not more than 16 nor less than two Business Days prior to the relevant Interest Payment Date, elect to defer interest payments on the Notes:
 - (i) where Dividend and Capital Restriction is specified as not applicable in the Final Terms, on any Interest Payment Date on which the Issuer determines in its sole discretion (by reference to the Issuer's then current financial condition), on or after the 20th Business Day, but not later than the fifth Business Day, prior to such Interest Payment Date that the Capital Adequacy Condition will not be met both at the time of, and immediately after, making the relevant interest payment; and

- (ii) where Dividend and Capital Restriction is specified as applicable in the Final Terms, on any Interest Payment Date on which the Issuer determines in its sole discretion (by reference to the Issuer's then current financial condition), on or after the 20th Business Day, but not later than the fifth Business Day, prior to such Interest Payment Date that the Capital Adequacy Condition will not be met both at the time of, and immediately after, the relevant interest payment,

and such Interest Payment Date is not a Compulsory Interest Payment Date.

- (c) Notwithstanding any other provision in these Conditions or the Trust Deed, any payment which for the time being is not made on Notes by virtue of this Condition 7 shall not constitute a default for any purpose (including, but without limitation, Condition 17) on the part of the Issuer.

8. Fixed Rate Note Provisions

8.1 Application

This Condition 8 is applicable to the Notes only if the Fixed Rate Note Provisions are specified as applicable in the Final Terms.

8.2 Accrual of interest

- (a) Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) (as specified in the Final Terms).
- (b) Each Fixed Rate Note (or, in the case of the redemption of part only of a Fixed Rate Note, that part only of such Fixed Rate Note) will cease to bear interest (if any) from the due date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

8.3 Fixed Coupon Amount

If the Notes are in definitive form, except as provided in the Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payment of any Broken Amount will be made on the Interest Payment Date so specified in the Final Terms.

8.4 Calculation of interest amount

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (i) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or
- (ii) in the case of Fixed Rate Notes in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

9. Reset Note Provisions

9.1 Application

This Condition 9 is applicable to the Notes only if the Reset Note Provisions are specified as applicable in the Final Terms.

9.2 Accrual of interest

- (a) Each Reset Note bears interest:
 - (i) in respect of the period from (and including) the Interest Commencement Date to (but excluding) the Reset Date (or, if there is more than one Reset Period, the first Reset Date occurring after the Interest Commencement Date), at the rate per annum equal to the Initial Rate of Interest; and
 - (ii) in respect of the Reset Period (or, if there is more than one Reset Period, each successive Reset Period thereafter), at such rate per annum as is equal to the relevant Subsequent Reset Rate, as determined by the Calculation Agent on the relevant Reset Determination Date in accordance with this Condition 9,

payable, in each case, in arrear on the Interest Payment Dates(s) (as specified in the Final Terms).

- (b) The Issue and Paying Agent will calculate the Interest Amount payable on the Reset Notes for the relevant period by applying the Initial Rate of Interest or the applicable Subsequent Reset Rate (as the case may be) to:
 - (i) in the case of Reset Notes that are represented by a Global Note, the aggregate outstanding nominal amount of the Reset Notes represented by such Global Note; or
 - (ii) in the case of Reset Notes in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Reset Note in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Reset Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.
- (c) Each Reset Note (or, in the case of the redemption of part only of a Reset Note, that part only of such Reset Note) will cease to bear interest (if any) from the due date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

9.3 Subsequent Reset Rate Screen Page

- (a) If on any Reset Determination Date the Subsequent Reset Rate Screen Page is not available, the Calculation Agent shall request each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Subsequent Reset Reference Rate at approximately the Subsequent Reset Rate Time on the Reset Determination Date in question.
- (b) If two or more of the Reference Banks provide the Calculation Agent with offered quotations, the Subsequent Reset Rate for the relevant Reset Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the applicable Reset Margin (if any), all as determined by the Calculation Agent.
- (c) If on any Reset Determination Date only one or none of the Reference Banks provides the Calculation Agent with an offered quotation as provided in the foregoing provisions of this Condition 9.3, the Subsequent Reset Rate shall be determined as at the last preceding Reset Determination Date or, in the case of the first Reset Determination Date, the Subsequent Reset Rate shall be the Initial Rate of Interest.

9.4 Mid Swap Rate Replacement

If:

- (1) Mid Swap Rate Replacement is specified as applicable in the Final Terms; and
- (2) notwithstanding the provisions of Condition 9.3 above, a Benchmark Event occurs in relation to any Mid Swap Rate specified in the Final Terms when any Rate of Interest (or component thereof) remains to be determined by reference to such Mid Swap Rate (as applicable),

then the following provisions shall apply to the relevant Series of Notes:

- (a) The Issuer shall use reasonable endeavours to appoint an Independent Adviser, at the Issuer's own expense, to determine an Alternative Mid Swap Rate and such other adjustments (which may equal zero) as referred to in this Condition 9.4 (in each case acting in good faith and in a commercially reasonable manner) for the purposes of determining the Mid Swap Rate for all future Reset Periods (subject to the subsequent operation of this Condition 9.4 during any other future Reset Period(s)).
- (b) Subject to paragraph (c) of this Condition 9.4, if:
 - (i) the relevant Independent Adviser (acting in good faith and in a commercially reasonable manner) determines no later than five Business Days prior to the Reset Determination Date relating to the next Reset Period (the "**IA Mid Swap Determination Cut-off Date**") that another rate (the "**Alternative Mid Swap Rate**") (x) has been formally published, endorsed, approved, recommended or recognised as a successor or replacement to the relevant Mid Swap Rate by any Relevant Nominating Body or (y) (if such Independent Adviser fails to determine a rate as described in (x) above) is customarily applied in international debt capital markets transactions for setting rates comparable to the Mid Swap Rate; or
 - (ii) the Issuer is unable to appoint an Independent Adviser, or the Independent Adviser appointed by the Issuer in accordance with paragraph (a) of this Condition 9.4 above fails to determine an Alternative Mid Swap Rate prior to the relevant IA Mid Swap Determination Cut-off Date, the Issuer (acting in good faith and in a commercially reasonable manner) determines no later than three Business Days prior to the Reset Determination Date relating to the next Reset Period (the "**Issuer Mid Swap Determination Cut-off Date**") that an Alternative Mid Swap Rate (x) has been formally published, endorsed, approved, recommended or recognised as a successor or replacement to the relevant Mid Swap Rate by any Relevant Nominating Body or (y) (if the Issuer fails to determine a rate as described in (x) above) is customarily applied in international debt

capital markets transactions for setting rates comparable to the Mid Swap Rate,

then the Mid Swap Rate for all future Reset Periods (subject to the subsequent operation of this Condition 9.4 during any other future Reset Period(s)) shall be the arithmetic mean of bid and offered rates determined as provided in these Conditions but as if references therein to the Mid Swap Rate, as applicable, were references to the Alternative Mid Swap Rate and with such adjustments (which may equal zero) as are (in the sole determination of such Independent Adviser or the Issuer (as applicable) acting in good faith and in a commercially reasonable manner) necessary to take account of the adjustment factor to make such rates comparable to rates quoted on the basis of the Mid Swap Rate being replaced by operation of this Condition 9.4.

Without prejudice to the definition thereof, for the purposes of determining an Alternative Mid Swap Rate and/or applicable adjustments thereto (which may equal zero), the Issuer will take into account relevant and applicable market precedents as well as any published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets and such other materials as the Issuer, in its sole discretion, considers appropriate.

- (c) Notwithstanding Condition 9.3 above, if:
- (i) the Independent Adviser appointed by the Issuer in accordance with paragraph (a) of this Condition 9.4 notifies the Issuer prior to the IA Mid Swap Determination Cut-off Date that it has determined that no rate is customarily applied in international debt capital markets transactions for setting rates comparable to the Mid Swap Rate or that it has been unable to determine the adjustments (which may equal zero) applying to any Alternative Mid Swap Rate; or
 - (ii) the Independent Adviser appointed by the Issuer in accordance with paragraph (a) of this Condition 9.4 fails to determine an Alternative Mid Swap Rate, together with the adjustments (which may equal zero) applying to such Alternative Mid Swap Rate, prior to the relevant IA Mid Swap Determination Cut-off Date, without notifying the Issuer as contemplated in sub-paragraph (c)(i) of this Condition 9.4, and the Issuer (acting in good faith and in a commercially reasonable manner) determines prior to the Issuer Mid Swap Determination Cut-off Date that no rate is customarily applied in international debt capital markets transactions for setting rates comparable to the Mid Swap Rate or, that it has been unable to determine the adjustments (which may equal zero) applying to any Alternative Mid Swap Rate,

and, in either case, an Alternative Mid Swap Rate, together with the adjustments (which may equal zero) applying to such Alternative Mid Swap Rate, is not otherwise determined in accordance with paragraph (b) of this Condition 9.4 prior

to the Issuer Mid Swap Determination Cut-off Date, the Subsequent Reset Rate shall be determined as at the last preceding Reset Determination Date or, in the case of the first Reset Determination Date, the Subsequent Reset Rate shall be the Initial Rate of Interest (though substituting, where a different Margin is to be applied to the relevant Reset Period from that which applied to the last preceding Reset Period, the Margin relating to the relevant Reset Period in place of the Margin relating to that last preceding Reset Period).

This paragraph (c) shall apply to the relevant Reset Period only. Any subsequent Reset Period(s) shall be subject to the operation of this Condition 9.4.

- (d) Promptly following the determination of any Alternative Mid Swap Rate as described in this Condition 9.4, the Issuer shall give notice that a Benchmark Event has occurred, including detailing the Alternative Mid Swap Rate and the adjustments (which may equal zero) (and the effective date(s) thereof), pursuant to this Condition 9.4 to the Trustee, the Issue and Paying Agent and the Holders.
- (e) The Trustee and the Issue and Paying Agent shall, at the direction and expense of the Issuer, effect such waivers and consequential amendments to the Trust Deed, the Agency Agreement, these Conditions and any other document as the relevant Independent Adviser or the Issuer (as applicable) determines may be required to give effect to any application of this Condition 9.4. Prior to any such waivers and/or consequential amendments taking effect, the Issuer shall provide a certificate signed by two Directors of the Issuer to the Trustee and the Issue and Paying Agent that such waivers and/or consequential amendments are required to give effect to any application of this Condition 9.4 and the Trustee and the Issue and Paying Agent shall be entitled to rely on such certificate without further enquiry or liability to any person. For the avoidance of doubt, the Trustee shall not be liable to the Holders or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person. Such changes shall apply to the Notes for all future Reset Periods (subject to the subsequent operation of this Condition 9.4). No consent of the Holders shall be required in connection with effecting the relevant Alternative Mid Swap Rate as described in this Condition 9.4 or such other relevant adjustments pursuant to this Condition 9.4, including for the execution of, or amendment to, any documents or the taking of other steps by the Issuer or any of the parties to the Trust Deed and/or the Agency Agreement (if required).

Notwithstanding the foregoing, the Trustee shall not be obliged to agree to any modification if in the sole opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce rights and/or the protective provisions afforded to the Trustee in these Conditions or the Trust Deed.

Notwithstanding any other provision of this Condition 9.4 no Alternative Mid Swap Rate will be adopted, and no other amendments to the terms of the Notes will be made pursuant to this Condition 9.4, if and to the extent that, in the sole determination of the

Issuer, the same could reasonably be expected to prejudice the qualification of the Notes as Tier 2 Capital of the Issuer or of the Group.

9.5 Notification of Subsequent Reset Rate and Interest Amounts

The Calculation Agent will cause the Subsequent Reset Rate and each Interest Amount for each Reset Period to be notified to the Issuer and the Trustee and any stock exchange or other relevant authority on which the relevant Reset Notes are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 21 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter.

9.6 Determination or calculation on default

If for any reason at any relevant time, the Calculation Agent defaults in its obligation to determine the Subsequent Reset Rate or to calculate any Interest Amount in accordance with Condition 9.2 or 9.3, the Issuer shall determine the Subsequent Reset Rate at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition 9), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Issuer shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances. In making any such determination or calculation, the Issuer may appoint and rely on a determination or calculation by a calculation agent (which shall be an investment bank or other suitable entity of international repute). Each such determination or calculation shall be deemed to have been made by the Calculation Agent.

9.7 Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 9, whether by the Calculation Agent or (in the context of Condition 9.4 only) an Independent Adviser, shall (in the absence of manifest error) be binding on the Issuer, the Issue and Paying Agent, the other Paying Agents, the Trustee and all Holders and (in the absence of wilful default and bad faith) no liability to the Issuer or the Holders or any other person shall attach to the Calculation Agent or (in the context of Condition 9.4 only) an Independent Adviser in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

10. Floating Rate Note Provisions

10.1 Application

This Condition 10 is applicable to the Notes only if the Floating Rate Note Provisions are specified as applicable in the Final Terms.

10.2 Accrual of interest

- (a) Each Floating Rate Note bears interest from (and including) the Interest Commencement Date at the Rate of Interest and such interest will be payable in arrear on each Interest Payment Date. Such interest will be payable in respect of each Interest Period.
- (b) Each Floating Rate Note (or, in the case of the redemption of part only of a Floating Rate Note, that part only of such Floating Rate Note) will cease to bear interest (if any) from the due date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

10.3 ISDA Determination

- (a) Where ISDA Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the Final Terms) the Margin (if any).
- (b) The “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Issue and Paying Agent under an interest rate swap transaction if the Issue and Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
 - (i) the Floating Rate Option is as specified in the Final Terms;
 - (ii) the Designated Maturity is a period specified in the Final Terms; and
 - (iii) the relevant Reset Date is the day specified in the Final Terms.
- (c) In this Condition 10.3, the expressions “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity” and “Reset Date” have the meanings given to those terms in the ISDA Definitions.

10.4 Screen Rate Determination

- (a) Where Screen Rate Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, and unless Condition 10.5, 10.6, 10.7, 10.8, 10.9 or 10.10 applies, the Rate of Interest for each Interest Period will, subject as provided below, be either:
 - (i) the offered quotation; or
 - (ii) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at the Relevant Time on the Interest Determination Date in question plus or minus (as indicated in the Final Terms) the Margin (if any), all as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

- (b) If the Relevant Screen Page is not available or if, in the case of Condition 10.4(a)(i) above, no offered quotation appears or, in the case of Condition 10.4(a)(ii) above, fewer than three offered quotations appear, in each case as at the Relevant Time, the Calculation Agent shall request each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Relevant Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Calculation Agent.
- (c) If on any Interest Determination Date one only or none of the Reference Banks provides the Calculation Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Calculation Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Relevant Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) or if the Reference Rate is other than LIBOR or EURIBOR, the inter-bank market of the Relevant Financial Centre plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Calculation Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Relevant Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Calculation Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate

is LIBOR) or the Euro-zone interbank market (if the Reference Rate is EURIBOR) or if the Reference Rate is other than LIBOR or EURIBOR, the inter-bank market of the Relevant Financial Centre plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

10.5 EONIA Linked Interest Notes

- (a) Where the Reference Rate is specified as being EONIA, the Rate of Interest for each Interest Period will be the rate (expressed as a percentage per annum rounded to the nearest ten-thousandths of a percentage point, with 0.00005 being rounded upwards) which will be calculated by the Calculation Agent and equal to the sum of Capitalised EONIA plus the Margin by reference to the Relevant Screen Page.
- (b) If, for any day “i” in respect of which EONIA₁ is to be determined, the Calculation Agent determines that:
 - (i) the Relevant Screen Page is not available; or
 - (ii) on the TARGET Business Day following the day “i” in respect of which EONIA₁ is to be determined, no overnight rate as referred to in the definition of “EONIA₁” appears for any reason,

the Issuer shall determine EONIA₁ for such day in its sole and absolute discretion on a commercial basis as it shall consider appropriate and in accordance with standard market practice.

10.6 SONIA Linked Interest Notes

- (a) Where the Reference Rate is specified as being SONIA, the Rate of Interest for each Interest Period will, subject as provided below, be Compounded Daily SONIA plus or minus (as indicated in the Final Terms) the Margin (if any), all as determined by the Calculation Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the Final Terms) on the Interest Determination Date for such Interest Period.
- (b) Subject to the provisions of Condition 10.11, if, in respect of any London Business Day in the relevant Observation Period, the Calculation Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the Final Terms) determines that the SONIA reference rate is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such SONIA reference rate shall be:

- (i) the Bank of England's Bank Rate (the "Bank of England Base Rate") prevailing at close of business on the relevant London Business Day; plus
 - (ii) the mean of the spread of the SONIA reference rate to the Bank of England Base Rate over the previous five days on which a SONIA reference rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads).
- (c) Subject to the provisions of Condition 10.11, if the Rate of Interest cannot be determined in accordance with paragraphs (a) and (b) by the Calculation Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the Final Terms), the Rate of Interest shall be:
 - (i) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Period in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Period); or
 - (ii) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to the Notes for the first Interest Period had the Notes been in issue for a period equal in duration to the scheduled first Interest Period but ending on (and excluding) the Interest Commencement Date (but applying the Margin and any Maximum Rate of Interest or Minimum Rate of Interest applicable to the first Interest Period).
- (d) If the Notes become due and payable in accordance with Condition 17, the final Interest Determination Date shall, notwithstanding any Interest Determination Date specified in the Final Terms, be deemed to be the date on which such Notes became due and payable and the Rate of Interest on the Notes shall, for so long as any of the Notes remain outstanding, be that determined on such date.

10.7 Federal Funds Rate Linked Interest Notes

Where the Reference Rate is specified as being the Federal Funds Rate, the Rate of Interest for each Interest Period will be calculated by the Calculation Agent and shall be equal to the Weighted Average U.S. Federal Funds Rate.

10.8 CMS Linked Interest Notes

- (a) Where the Reference Rate is specified as being the CMS Reference Rate, the Rate of Interest for each Interest Period will be calculated by the Calculation

Agent and shall be equal to the sum of the CMS Rate plus the Margin, determined by reference to the Relevant Screen Page.

- (b) If the Relevant Screen Page is not available, the Calculation Agent shall request each of the Reference Banks to provide the Calculation Agent with its quotation for the Relevant Swap Rate (expressed as a percentage rate per annum) at approximately the Relevant Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent such quotations, the CMS Rate for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest).
- (c) If on any Interest Determination Date one only or none of the Reference Banks provides the Calculation Agent with such quotations as provided in the preceding paragraph, the CMS Rate shall be determined by the Issuer in its sole and absolute discretion on a commercial basis as it shall consider appropriate and in accordance with standard market practice.

10.9 Compounded Daily SOFR Linked Interest Notes

- (a) Where the Reference Rate is specified as being Compounded Daily SOFR, the Rate of Interest for each Interest Period will, subject as provided below, be Compounded Daily SOFR plus or minus (as indicated in the Final Terms) the Margin (if any), all as determined by the Calculation Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the Final Terms) on the Interest Determination Date for such Interest Period.
- (b) The Issuer may at any time, following consultation with an Independent Adviser (appointed by the Issuer at its own expense), specify such changes to paragraph (iii) of the definition of "SOFR" set out in the definition of "Compounded Daily SOFR" as it determines are reasonably necessary to ensure the proper operation and comparability to the Reference Rate of rates determined in accordance with such paragraph, which changes shall apply to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 10.9(b)). For the avoidance of doubt, the Trustee shall, at the direction and expense of the Issuer, effect such amendments to the Conditions together with such consequential amendments to the Trust Deed and Agency Agreement as may be required to give effect to the application of this Condition 10.9(b).

Prior to any such amendment, the Issuer shall provide a certificate signed by two Directors of the Issuer to the Trustee confirming that the Issuer has made the relevant determinations in accordance with this Condition 10.9(b), such amendments are required to give effect to any application of this Condition 10.9(b) and attaching the proposed amendments and the Trustee shall be entitled to rely on such certificate without further enquiry or liability to any person. For the avoidance of doubt, the Trustee shall not be liable to the Holders of the Notes

or to any other person for any consequences thereof, irrespective of whether any such modification is or may be materially prejudicial to the interests of such person. No consent of the Holders of the Notes or of the Couponholders shall be required in connection with effecting such changes, including for the execution of, or amendments to, any documents or the taking of other steps by the Trustee, the Issuer or any of the parties to the Trust Deed and/or the Agency Agreement (if required). The Trustee shall not be obliged to agree to any amendments which in the sole opinion of the Trustee would have the effect of (1) exposing the Trustee to any liabilities against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (2) increasing the obligations or duties, or decreasing the rights or protection, of the Trustee in the documents to which it is a party and/or these Conditions. The Issuer shall promptly following the determination of any changes pursuant to this Condition 10.9(b) give notice thereof to the Trustee, the Issue and Paying Agent, the Calculation Agent and the Holders.

10.10 Weighted Average SOFR Linked Interest Notes

- (a) Where the Reference Rate is specified as being Weighted Average SOFR, the Rate of Interest for each Interest Period will, subject as provided below, be Weighted Average SOFR plus or minus (as indicated in the Final Terms) the Margin (if any), all as determined by the Calculation Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the Final Terms) on the Interest Determination Date for such Interest Period.
- (b) The Issuer may at any time, following consultation with an Independent Adviser (appointed by the Issuer at its own expense), specify such changes to paragraph (iii) of the definition of "SOFR" set out in the definition of "Weighted Average SOFR" as it determines are reasonably necessary to ensure the proper operation and comparability to the Reference Rate of rates determined in accordance with such paragraph, which changes shall apply to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 10.10(b)). For the avoidance of doubt, the Trustee shall, at the direction and expense of the Issuer, effect such amendments to the Conditions together with such consequential amendments to the Trust Deed and Agency Agreement as may be required to give effect to the application of this Condition 10.10(b).

Prior to any such amendment, the Issuer shall provide a certificate signed by two Directors of the Issuer to the Trustee confirming that the Issuer has made the relevant determinations in accordance with this Condition 10.10(b), such amendments are required to give effect to any application of this Condition 10.10(b) and attaching the proposed amendments and the Trustee shall be entitled to rely on such certificate without further enquiry or liability to any person. For the avoidance of doubt, the Trustee shall not be liable to the Holders of the Notes or to any other person for any consequences thereof, irrespective of whether any such modification is or may be materially prejudicial to the interests of such person. No consent of the Holders of the Notes or of the Couponholders shall be required in connection with effecting such changes, including for the

execution of, or amendments to, any documents or the taking of other steps by the Trustee, the Issuer or any of the parties to the Trust Deed and/or the Agency Agreement (if required). The Trustee shall not be obliged to agree to any amendments which in the sole opinion of the Trustee would have the effect of (1) exposing the Trustee to any liabilities against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (2) increasing the obligations or duties, or decreasing the rights or protection, of the Trustee in the documents to which it is a party and/or these Conditions. The Issuer shall promptly following the determination of any changes pursuant to this Condition 10.10(b) give notice thereof to the Trustee, the Issue and Paying Agent, the Calculation Agent and the Holders.

10.11 Reference Rate Replacement

If:

- (1) Reference Rate Replacement is specified as applicable in the Final Terms;
- (2) Screen Rate Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined; and
- (3) notwithstanding the provisions of Condition 10.4 above, a Benchmark Event occurs in relation to an Original Reference Rate (or component thereof) remains to be determined by reference to such Original Reference Rate,

then the following provisions shall apply to the relevant Series of Notes:

- (a) The Issuer shall use reasonable endeavours to appoint an Independent Adviser, at the Issuer's own expense, to determine a Successor Reference Rate or, if such Independent Adviser is unable so to determine a Successor Reference Rate, an Alternative Reference Rate and, in each case, an Adjustment Spread (in any such case, acting in good faith and in a commercially reasonable manner) for the purposes of determining the Rate of Interest applicable to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 10.11 during any other future Interest Period(s)).
- (b) Subject to paragraph (c) of this Condition 10.11, if:
 - (i) the relevant Independent Adviser (acting in good faith and in a commercially reasonable manner), no later than five Business Days prior to the Interest Determination Date relating to the next Interest Period (the "**IA Determination Cut-off Date**"), determines a Successor Reference Rate or, if such Independent Adviser fails so to determine a Successor Reference Rate, an Alternative Reference Rate and, in each case, an Adjustment Spread (in any such case, acting in good faith and in a commercially reasonable manner) for the purposes of determining the Rate of Interest (or component thereof) applicable to the Notes for all

future Interest Periods (subject to the subsequent operation of this Condition 10.11 during any other future Interest Period(s)); or

- (ii) the Issuer is unable to appoint an Independent Adviser, or the Independent Adviser appointed by the Issuer in accordance with paragraph (a) of this Condition 10.11 fails to determine a Successor Reference Rate or an Alternative Reference Rate prior to the relevant IA Determination Cut-off Date, the Issuer (acting in good faith and in a commercially reasonable manner), no later than three Business Days prior to the Interest Determination Date relating to the next Interest Period (the "**Issuer Determination Cut-off Date**"), determines a Successor Reference Rate or, if the Issuer fails so to determine a Successor Reference Rate, an Alternative Reference Rate (as applicable) and, in each case, an Adjustment Spread (in any such case, acting in good faith and in a commercially reasonable manner) for the purposes of determining the Rate of Interest (or component thereof) applicable to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 10.11 during any other future Interest Period(s)),

then:

- (A) such Successor Reference Rate or Alternative Reference Rate (as applicable) shall be used in place of the Original Reference Rate for all future Interest Periods (subject to the subsequent operation of this Condition 10.11 during any other future Interest Period(s)).

Without prejudice to the definitions thereof, for the purposes of determining an Alternative Reference Rate, the Issuer will take into account relevant and applicable market precedents as well as any published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets and such other materials as the Issuer, in its sole discretion, considers appropriate; and

- (B) if the relevant Independent Adviser or the Issuer (as applicable) determines an Adjustment Spread, then such Adjustment Spread shall be applied to such Successor Reference Rate or Alternative Reference Rate (as applicable) for all future Interest Periods (subject to the subsequent operation of this Condition 10.11).

- (c) Notwithstanding any other provision of this Condition 10.4(b) above, if:

- (i) the Independent Adviser appointed by the Issuer in accordance with paragraph (a) of this Condition 10.11 notifies the Issuer prior to the IA Determination Cut-off Date that it has determined that no Successor Reference Rate or Alternative Reference Rate exists or, in either case, that it is unable to determine the applicable Adjustment Spread; or

- (ii) the Independent Adviser appointed by the Issuer in accordance with paragraph (a) of this Condition 10.11 fails to determine a Successor Reference Rate or an Alternative Reference Rate and, in either case, the applicable Adjustment Spread, prior to the relevant IA Determination Cut-off Date, without notifying the Issuer as contemplated in sub-paragraph (c)(i) of this Condition 10.11, and the Issuer (acting in good faith and in a commercially reasonable manner) determines prior to the Issuer Determination Cut-off Date that no Successor Reference Rate or Alternative Reference Rate exists or, in either case, that it is unable to determine the applicable Adjustment Spread,

and, in either case, neither a Successor Reference Rate nor an Alternative Reference Rate, in each case, together with the applicable Adjustment Spread, is otherwise determined in accordance with paragraph (b) of this Condition 10.11 prior to the Issuer Determination Cut-off Date, the relevant Rate of Interest shall be determined as at the last preceding Interest Determination Date or, in the case of the first Interest Determination Date, the Rate of Interest shall be the Initial Rate of Interest (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Period in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Period).

This paragraph (c) shall apply to the relevant Interest Period only. Any subsequent Interest Period(s) shall be subject to the operation of this Condition 10.11.

- (d) Promptly following the occurrence of a Benchmark Event and the determination of any Successor Reference Rate or Alternative Reference Rate (as applicable) and, in either case, an Adjustment Spread, as described in this Condition 10.11, the Issuer shall give notice that a Benchmark Event has occurred, including detailing the Successor Reference Rate or Alternative Reference Rate (as applicable) and of the Adjustment Spread (and the effective date(s) thereof), pursuant to this Condition 10.11 to the Trustee, the Issue and Paying Agent and the Holders.
- (e) The Trustee and the Issue and Paying Agent shall, at the direction and expense of the Issuer, effect such waivers and consequential amendments to the Trust Deed, the Agency Agreement, these Conditions and any other document as may be required to give effect to any application of this Condition 10.11, including, but not limited to:
 - (i) changes to these Conditions which the relevant Independent Adviser or the Issuer (as applicable) determines may be required in order to follow market practice (determined according to factors including, but not limited to, public statements, opinions and publications of industry bodies and organisations) in relation to such Successor Reference Rate or

Alternative Reference Rate (as applicable), including, but not limited to (A) the relevant Business Centre(s), Business Day, Business Day Convention, Day Count Fraction, Interest Determination Date, Reference Banks, Relevant Financial Centre, Relevant Screen Page and/or Relevant Time applicable to the Notes and (B) the method for determining the fallback to the Rate of Interest in relation to the Notes if such Successor Reference Rate or Alternative Reference Rate (as applicable) is not available; and

- (ii) any other changes which the relevant Independent Adviser or the Issuer (as applicable) determines are reasonably necessary to ensure the proper operation and comparability to the Reference Rate of such Successor Reference Rate or Alternative Reference Rate (as applicable).

Prior to any such waivers and/or consequential amendments taking effect, the Issuer shall provide a certificate signed by two Directors of the Issuer to the Trustee and the Issue and Paying Agent that such waivers and/or consequential amendments are required to give effect to any application of this Condition 10.11 and the Trustee and the Issue and Paying Agent shall be entitled to rely on such certificate without further enquiry or liability to any person. For the avoidance of doubt, the Trustee shall not be liable to the Holders or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person. Such changes shall apply to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 10.11).

The Trustee shall not be obliged to agree to any modification if in the sole opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce rights and/or the protective provisions afforded to the Trustee in these Conditions or the Trust Deed.

No consent of the Holders shall be required in connection with effecting the relevant Successor Reference Rate or Alternative Reference Rate as described in this Condition 10.11 or such other relevant adjustments pursuant to this Condition 10.11, or the Adjustment Spread, including for the execution of, or amendment to, any documents or the taking of other steps by the Issuer or any of the parties to the Trust Deed and/or the Agency Agreement (if required).

- (f) Notwithstanding any other provision of this Condition 10.11 no Successor Reference Rate or Alternative Reference Rate will be adopted, and no other amendments to the terms of the Notes will be made pursuant to this Condition 10.11, if and to the extent that, in the sole determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the Notes as Tier 2 Capital of the Issuer or of the Group.

10.12 Minimum Rate of Interest and/or Maximum Rate of Interest

- (a) If the Final Terms specify a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of this Condition 10 is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.
- (b) If the Final Terms specify a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of this Condition 10 is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

10.13 Determination of Rate of Interest

The Issue and Paying Agent or, in the case of Floating Rate Notes which are EONIA Linked Interest Notes, SONIA Linked Interest Notes, Federal Funds Rate Linked Interest Notes, CMS Linked Interest Notes, Compounded Daily SOFR Linked Interest Notes or Weighted Average SOFR Linked Interest Notes, the Calculation Agent, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Floating Rate Notes which are EONIA Linked Interest Notes, SONIA Linked Interest Notes, Federal Funds Rate Linked Interest Notes, CMS Linked Interest Notes, Compounded Daily SOFR Linked Interest Notes or Weighted Average SOFR Linked Interest Notes, the Calculation Agent will notify the Issue and Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

10.14 Calculation of Interest Amount

- (a) The Issue and Paying Agent or, in the case of Floating Rate Notes which are EONIA Linked Interest Notes, SONIA Linked Interest Notes, Federal Funds Rate Linked Interest Notes, CMS Linked Interest Notes, Compounded Daily SOFR Linked Interest Notes or Weighted Average SOFR Linked Interest Notes, the Calculation Agent, will calculate the Interest Amount payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:
 - (i) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or
 - (ii) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

- (b) Where the Specified Denomination of a Floating Rate Note in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

10.15 Linear Interpolation

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Issuer shall determine such rate at such time and by reference to such sources as it determines appropriate.

10.16 Notification of Rate of Interest and Interest Amounts

- (a) The Calculation Agent or, in the case of Floating Rate Notes which are EONIA Linked Interest Notes, SONIA Linked Interest Notes, Federal Funds Rate Linked Interest Notes, CMS Linked Interest Notes, Compounded Daily SOFR Linked Interest Notes or Weighted Average SOFR Linked Interest Notes, the Calculation Agent, will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and the Trustee and any stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 21 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter.
- (b) Each Interest Amount and Interest Payment Date notified in accordance with Condition 10.16(a) may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to listing and to the Holders in accordance with Condition 21.

10.17 Determination or calculation on default

If for any reason at any relevant time the Calculation Agent defaults in its obligation to determine the Rate of Interest or to calculate any Interest Amount in accordance with this Condition 10, the Issuer shall determine the Rate of Interest at such rate as, in its absolute

discretion (having such regard as it shall think fit to the foregoing provisions of this Condition 10, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Issuer shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances. In making any such determination or calculation, the Issuer may appoint and rely on a determination or calculation by a calculation agent (which shall be an investment bank or other suitable entity of international repute). Each such determination or calculation shall be deemed to have been made by the Calculation Agent.

10.18 Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 10, whether by the Issue and Paying Agent or, if applicable, the Calculation Agent or (in the context of Condition 10.11 only) an Independent Adviser, shall (in the absence of manifest error) be binding on the Issuer, the Issue and Paying Agent, the Calculation Agent (if applicable), the other Paying Agents, the Trustee and all Holders and (in the absence of wilful default and bad faith) no liability to the Issuer or the Holders or any other person shall attach to the Issue and Paying Agent or, if applicable, the Calculation Agent or (in the context of Condition 10.11 only) an Independent Adviser in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

11. Fixed/Floating Rate Notes

11.1 Application

This Condition 11 is applicable to the Notes only if the Fixed Rate Note Provisions and the Floating Rate Note Provisions are specified as applicable in the Final Terms.

11.2 Fixed/Floating Rate

The Issuer may issue Notes:

- (i) that the Issuer may elect to convert on the date set out in the Final Terms from a Fixed Rate Note to a Floating Rate Note, or from a Floating Rate Note to a Fixed Rate Note; or
- (ii) that will automatically convert from a Fixed Rate Note to a Floating Rate Note, or from a Floating Rate Note to a Fixed Rate Note, on the date set out in the Final Terms.

12. Business Day Convention

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention has (x) no numerically corresponding day

in the calendar month in which such date should occur or (y) would otherwise fall on a day that is not a Business Day, then:

- (i) if “Following Business Day Convention” is specified in the Final Terms, the relevant date shall be postponed to the first following day that is a Business Day;
- (ii) if “Modified Following Business Day Convention” or “Modified Business Day Convention” is specified in the Final Terms, the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (iii) if “Preceding Business Day Convention” is specified in the Final Terms, the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (iv) if “FRN Convention”, “Floating Rate Convention” or “Eurodollar Convention” is specified in the Final Terms, the relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the Final Terms as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:
 - (A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day;
 - (C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (v) if “No Adjustment” is specified in the Final Terms, the relevant date shall not be adjusted in accordance with any Business Day Convention.

13. Payments

13.1 Method of payment

- (a) Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account and which, in the case of a payment on a Note in bearer form for U.S. federal income tax purposes, shall be an account outside the United States, except as may be permitted by United States federal income tax law) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (in no event, however, shall payment in respect of a Note in bearer form for U.S. federal income tax purposes be made by cheque mailed to an address in the United States); and
 - (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.
- (b) Payments will be subject in all cases to:
 - (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 15; and
 - (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 15) any law implementing an intergovernmental approach thereto.

13.2 Presentation of Bearer Notes and Coupons

- (a) Payments of principal in respect of Bearer Notes will (subject as provided below) be made in the manner provided in Condition 13.1 only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Bearer Notes, and payments of interest in respect of Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).
- (b) Fixed Rate Notes in definitive bearer form (other than Long Maturity Notes) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for

payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 16) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

- (c) Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.
- (d) Upon the date on which any Floating Rate Note, Reset Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.
- (e) If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.
- (f) Payments of principal and interest (if any) in respect of Notes represented by any Temporary or Permanent Global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes and otherwise in the manner specified in the relevant Temporary or Permanent Global Note in bearer form, where applicable, against presentation or surrender, as the case may be, of such Temporary or Permanent Global Note in bearer form at the specified office of any Paying Agent outside the United States. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made either on such Temporary or Permanent Global Note in bearer form by the Paying Agent to which it was presented or in the records of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream, Luxembourg"), as applicable.
- (g) The Holder of a Temporary or Permanent Global Note in bearer form shall be the only person entitled to receive payments in respect of Notes represented by such Temporary or Permanent Global Note in bearer form and the Issuer will be discharged by payment to, or to the order of, the Holder of such Temporary or Permanent Global Note in bearer form in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg or any other clearing system as the beneficial holder of a particular nominal amount of Notes represented by such Temporary or Permanent Global Note in bearer form must look solely to Euroclear, Clearstream, Luxembourg or such other clearing system, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the Holder of such Temporary or Permanent Global Note in bearer form.

13.3 U.S. Paying Agent

- (a) Notwithstanding the foregoing provisions of this Condition 13, if any amount of principal and/or interest in respect of Notes is payable in US dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:
 - (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in US dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
 - (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in US dollars; and
- (b) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

13.4 Registered Notes

- (a) Payments of principal in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account of the Holder (or the first named of joint Holders) of the Registered Note appearing in the register:
 - (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date; and
 - (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date.
- (b) Notwithstanding Condition 13.4(a), if:
 - (i) a Holder does not have a Designated Account; or
 - (ii) the nominal amount of the Registered Notes held by a Holder is less than US\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank.

- (c) Payments of interest in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the Holder (or the first named of joint Holders) of the Registered Note appearing in the register:
 - (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date; and
 - (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the "Record Date") at his address shown in the register on the Record Date and at his risk.
- (d) Upon application of the Holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Notes which become payable to the Holder who has made the initial application until the Registrar is notified in writing to the contrary by such Holder. Payment of the interest due in respect of each Registered Note on redemption will be made in the same manner as payment of the principal amount of such Registered Note.
- (e) Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition 13 arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such Holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

13.5 Payment Day

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the Holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay.

13.6 Interpretation of principal and interest

- (a) Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:
 - (i) the Final Redemption Amount of the Notes;

- (ii) the Optional Redemption Amount(s) (if any) of the Notes;
 - (iii) the Make Whole Redemption Price; and
 - (iv) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.
- (b) Any reference in these Conditions to interest or Arrears of Interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest or Arrears of Interest under Condition 15 or under any undertaking given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

14. Redemption, Variation, Substitution, Conversion and Purchase

This Condition 14 is subject in all respects to Condition 4.

14.1 Redemption

- (a) Unless previously redeemed, substituted, converted or purchased and cancelled as specified below, each Dated Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the Final Terms in the Specified Currency on the Maturity Date.
- (b) Undated Notes are perpetual securities in respect of which there is no maturity date.
- (c) Notes are not redeemable at the option of the Holders at any time.

14.2 Issuer's Call Option

The Issuer may redeem the Notes in whole (but not in part) at its option, if specified in the Final Terms, on any Optional Redemption Date.

The Solvency II Regulations require that the Notes may not be redeemed prior to the fifth anniversary of (i) the Issue Date of the Notes or (ii) if any further Tranche(s) of the Notes has or have been issued and consolidated and form a single Series with the Notes, the issue date of the last Tranche of the relevant Series, unless such redemption is funded out of the proceeds of a new issuance of capital of the same or higher quality than the relevant Notes.

To satisfy this requirement, the Optional Redemption Date specified in any Final Terms may not occur prior to the fifth anniversary of (i) the Issue Date of the Notes or (ii) if any further Tranche(s) of the Notes has or have been issued and consolidated and form a single Series with the Notes, the issue date of the last Tranche of the relevant Series.

14.3 Tax Event Redemption

- (a) This Condition 14.3 shall apply to the Notes only if Tax Event Redemption is specified as being applicable in the Final Terms.
- (b) Subject as provided in these Conditions, the Issuer may redeem the Notes in whole (but not in part) at any time upon the occurrence of a Tax Event.
- (c) If and to the extent required by the Capital Regulations applicable in relation to Tier 2 Capital, and except as otherwise indicated to the Issuer by the PRA, the Issuer may not redeem the Notes upon the occurrence of a Tax Event prior to the fifth anniversary of the Issue Date of the Notes unless such redemption is funded out of the proceeds of a new issuance of capital of the same or higher quality than the relevant Notes.

14.4 Tax Event Redemption and Refinancing Option

- (a) This Condition 14.4 shall apply to the Notes only if Tax Event Redemption and Refinancing Option is specified as being applicable in the Final Terms.
- (b) Subject as provided in these Conditions, the Issuer may, at any time upon the occurrence of a Tax Event in its sole discretion:
 - (i) redeem the Notes in whole (but not in part); or
 - (ii) to address such Tax Event, substitute the Notes in whole (but not in part) for, or vary these Conditions and/or the terms of the Trust Deed such that they are treated as, an issue of Qualifying Tier 2 Capital.
- (c) If and to the extent required by the Capital Regulations applicable in relation to Tier 2 Capital, and except as otherwise indicated to the Issuer by the PRA, the Issuer may not redeem the Notes upon the occurrence of a Tax Event prior to the fifth anniversary of the Issue Date of the Notes unless such redemption is funded out of the proceeds of a new issuance of capital of the same or higher quality than the relevant Notes.
- (d) The Trustee shall use its reasonable endeavours to assist the Issuer in substitution or variation of the Notes in accordance with this Condition 14.4, provided that the Trustee shall not be obliged to participate or assist in any such substitution or variation if the terms of the notes into which the Notes are to be substituted or are to be varied impose, in the Trustee's opinion, more onerous obligations upon it.

14.5 Regulatory Event Redemption

- (a) This Condition 14.5 shall apply to the Notes only if Regulatory Event Redemption is specified as being applicable in the Final Terms.

- (b) Subject as provided in these Conditions, the Issuer may redeem the Notes in whole (but not in part) at any time upon the occurrence of a Regulatory Event.
- (c) If and to the extent required by the Capital Regulations applicable in relation to Tier 2 Capital, and except as otherwise indicated to the Issuer by the PRA, the Issuer may not redeem the Notes upon the occurrence of a Regulatory Event prior to the fifth anniversary of the Issue Date of the Notes unless such redemption is funded out of the proceeds of a new issuance of capital of the same or higher quality as the relevant Notes.

14.6 Regulatory Event Redemption and Regulatory Event Refinancing Option

- (a) This Condition 14.6 shall apply to the Notes only if Regulatory Event Redemption and Regulatory Event Refinancing Option is specified as being applicable in the Final Terms.
- (b) Subject as provided in these Conditions, the Issuer may, at any time upon the occurrence of a Regulatory Event, in its sole discretion:
 - (i) redeem the Notes in whole (but not in part); or
 - (ii) substitute the Notes in whole (but not in part) for, or vary these Conditions and/or the terms of the Trust Deed such that they are treated as, an issue of Qualifying Tier 2 Capital.
- (c) If and to the extent required by the Capital Regulations applicable in relation to Tier 2 Capital, and except as otherwise indicated to the Issuer by the PRA, the Issuer may not redeem the Notes upon the occurrence of a Regulatory Event prior to the fifth anniversary of the Issue Date of the Notes unless such redemption is funded out of the proceeds of a new issuance of capital of the same or higher quality as the relevant Notes.
- (d) The Trustee shall use its reasonable endeavours to assist the Issuer in substitution or variation of the Notes in accordance with this Condition 14.6, provided that the Trustee shall not be obliged to participate or assist in any such substitution or variation if the terms of the notes into which the Notes are to be substituted or are to be varied impose, in the Trustee's opinion, more onerous obligations upon it.

14.7 Rating Event Redemption

- (a) This Condition 14.7 shall apply to the Notes only if Rating Event Redemption is specified as being applicable in the Final Terms.
- (b) Subject as provided in these Conditions, the Issuer may redeem the Notes in whole (but not in part) at any time upon the occurrence of a Rating Event.

- (c) If and to the extent required by the Capital Regulations applicable in relation to Tier 2 Capital, and except as otherwise indicated to the Issuer by the PRA, the Issuer may not redeem the Notes upon the occurrence of a Rating Event prior to the fifth anniversary of the Issue Date of the Notes unless such redemption is funded out of the proceeds of a new issuance of capital of the same or higher quality than the relevant Notes.

14.8 Redemption Procedures

- (a) Any redemption, substitution or variation under this Condition 14 may be made on not less than 30 nor more than 60 days' notice to the Trustee and the Issue and Paying Agent in writing and to the Holders in accordance with Condition 21.
- (b) If the Notes are redeemed at the Issuer's option pursuant to Condition 14.2, such Notes shall be redeemed on any Optional Redemption Date at their Optional Redemption Amount together with accrued interest (including any interest not paid on a Compulsory Interest Payment Date (if applicable)) to the Redemption Date and the aggregate amount of any Arrears of Interest, each as provided in these Conditions.
- (c) If the Notes are to be redeemed pursuant to Condition 14.3 or 14.4 on the occurrence of a Par Tax Event, the Notes may be redeemed at any time (if and so long as such Note is not a Floating Rate Note) or on any Interest Payment Date (if and so long as such Note is a Floating Rate Note) at the outstanding principal amount of the Notes, together with accrued interest (including any interest not paid on a Compulsory Interest Payment Date) to the Redemption Date and the aggregate amount of any Arrears of Interest, each as provided in these Conditions.
- (d) If the Notes are to be redeemed pursuant to Condition 14.3 or 14.4 on the occurrence of an Other Tax Event, the Notes may be redeemed at any time (if and so long as such Note is not a Floating Rate Note) or on any Interest Payment Date (if and so long as such Note is a Floating Rate Note) at:
 - (i) in the case of an Other Tax Event occurring on or after the first Optional Redemption Date (if any), the outstanding principal amount of the Notes; and
 - (ii) in the case of an Other Tax Event occurring prior to the first Optional Redemption Date (if any), the outstanding principal amount of the Notes or their Make Whole Redemption Price as specified in the Final Terms, together, in each case, with accrued interest (including any interest not paid on a Compulsory Interest Payment Date) to the Redemption Date and the aggregate amount of any Arrears of Interest, each as provided in these Conditions.
- (e) If the Notes are to be redeemed pursuant to Condition 14.5, 14.6 or 14.7 on the occurrence of a Regulatory Event or a Rating Event, the Notes may be redeemed

at any time (if and so long as such Note is not a Floating Rate Note) or on any Interest Payment Date (if and so long as such Note is a Floating Rate Note) at:

- (i) in the case of a Regulatory Event or Rating Event occurring on or after the first Optional Redemption Date (if any), the outstanding principal amount of the Notes; and
 - (ii) in the case of a Regulatory Event or Rating Event occurring prior to the first Optional Redemption Date (if any), the outstanding principal amount of the Notes or their Make Whole Redemption Price as specified in the Final Terms, together, in each case, with accrued interest (including any interest not paid on a Compulsory Interest Payment Date) to the Redemption Date and the aggregate amount of any Arrears of Interest, each as provided in these Conditions.
 - (f) Prior to the giving of any notice of redemption, substitution or variation following the occurrence of a Tax Event, Regulatory Event or Rating Event, the Issuer shall deliver to the Trustee:
 - (i) a certificate, signed by two Directors of the Issuer, stating that the Issuer is entitled to effect such redemption or substitution or variation and setting forth a statement of facts showing that the conditions precedent to the right to redeem or, as the case may be, substitute or vary have occurred and, in the case of the event described in paragraph (a) of the definition of Tax Event, that the payment of such additional amounts cannot be avoided by using reasonable measures available to it; and
 - (ii) in the case of a Tax Event, an opinion of independent legal advisers of recognised standing to the effect that the Issuer is entitled to exercise its right of redemption or substitution or variation.
- The Trustee shall be entitled to accept such certificate and, where applicable, such opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Holders.
- (g) Any notice of redemption will be irrevocable, subject to the Redemption Date postponement requirements set out below. Failure to pay or set aside for payment the principal amount of the Notes to be redeemed, any accrued but unpaid interest, any Arrears of Interest, each as provided in these Conditions within 14 days of the Redemption Date, as postponed, if applicable, will constitute a Default.
 - (h) If Spens Amount is specified in the Final Terms, the Make Whole Redemption Price shall be an amount equal to the higher of:
 - (i) 100 per cent. of the principal amount outstanding of the Notes to be redeemed; and

- (ii) the principal amount outstanding of the Notes to be redeemed multiplied by the price, as reported to the Issuer and the Trustee by the Determination Agent, at which the Gross Redemption Yield on such Notes on the Reference Date is equal to the Gross Redemption Yield (determined by reference to the middle market price) at the Quotation Time specified in the Final Terms on the Reference Date of the Reference Bond, plus the Redemption Margin, all as determined by the Determination Agent.
- (i) If Make Whole Redemption Amount is specified in the Final Terms, the Make Whole Redemption Price shall be an amount calculated by the Determination Agent equal to the higher of:
 - (i) 100 per cent. of the principal amount outstanding of the Notes to be redeemed; and
 - (ii) the sum of the present values of the principal amount outstanding of the Notes to be redeemed and the Remaining Term Interest on such Note (exclusive of interest accrued to the date of redemption) and such present values shall be calculated by discounting such amounts to the date of redemption on an annual basis (assuming a 360-day year consisting of twelve 30-day months or, in the case of an incomplete month, the number of days elapsed) at the Reference Bond Rate, plus the Redemption Margin.
- (j) In this Condition 14.8:

“Determination Agent” means an investment bank or financial institution of international standing selected by the Issuer after consultation with the Trustee;

“FA Selected Bond” means:

- (a) in the case of Dated Notes, a government security or securities selected by the Determination Agent as having an actual or interpolated maturity comparable with the remaining term to:
 - (i) if no Optional Redemption Date is specified in the Final Terms, the Maturity Date; or
 - (ii) if an Optional Redemption Date is specified in the Final Terms, the first Optional Redemption Date of the Notes, that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the Specified Currency and of a comparable maturity to the remaining term to:
 - (A) if no Optional Redemption Date is specified in the Final Terms, the Maturity Date; or

(B) if an Optional Redemption Date is specified in the Final Terms, the first Optional Redemption Date of the Notes; and

(b) in the case of Undated Notes, a government security or securities selected by the Determination Agent as having an actual or interpolated maturity comparable with the remaining term to the first Optional Redemption Date of the Notes, that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the Specified Currency and of a comparable maturity to the remaining term to the first Optional Redemption Date of the Notes;

“Gross Redemption Yield” means, with respect to a security, the gross redemption yield on such security, expressed as a percentage and calculated by the Determination Agent on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields”, page 4, Section One: Price/Yield Formulae “Conventional Gilts”; “Double dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published 8 June 1998, as amended or updated from time to time) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) or on such other basis as the Trustee may approve in consultation with any relevant expert (such expert to be selected by the Trustee and approved by the Issuer), whose fees shall be payable together with the Trustee’s fees by the Issuer;

“Redemption Margin” shall be such amount as is specified in the Final Terms, which shall be a single amount that applies from the Issue Date until redemption of the Notes;

“Reference Bond” shall be as set out in the Final Terms or the FA Selected Bond;

“Reference Bond Price” means, with respect to any date of redemption:

- (a) the arithmetic average of the Reference Government Bond Dealer Quotations for such Redemption Date, after excluding the highest and lowest such Reference Government Bond Dealer Quotations; or
- (b) if the Determination Agent obtains fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations;

“Reference Bond Rate” means, with respect to any Redemption Date, the rate per annum equal to the annual or semi-annual yield (as the case may be) to maturity or interpolated yield to maturity (on the relevant day count basis) of the Reference Bond, assuming a price for the Reference Bond (expressed as a percentage of its nominal amount) equal to the Reference Bond Price for such Redemption Date;

“Reference Date” means the date specified as such in the relevant notice of redemption;

“Reference Government Bond Dealer” means each of five banks selected by the Issuer, or their affiliates, which are:

- (a) primary government securities dealers, and their respective successors, or
- (b) market makers in pricing corporate bond issues;

“Reference Government Bond Dealer Quotations” means, with respect to each Reference Government Bond Dealer and any Redemption Date, the arithmetic average, as determined by the Determination Agent, of the bid and offered prices for the Reference Bond (expressed in each case as a percentage of its nominal amount) at the Quotation Time specified in the Final Terms on the Reference Date quoted in writing to the Determination Agent by such Reference Government Bond Dealer; and

“Remaining Term Interest” means:

- (a) with respect to any Dated Note, the aggregate amount of scheduled payment(s) of interest (assuming each such scheduled interest payment to be due in full) on such Note for the remaining term to (i) the Maturity Date or (ii) if an Optional Redemption Date is specified in the Final Terms, the first Optional Redemption Date of such Note determined on the basis of the rate of interest applicable to such Note from and including the Redemption Date; and
- (b) with respect to any Undated Note, the aggregate amount of scheduled payment(s) of interest (assuming each such scheduled interest payment to be due in full) on such Note for the remaining term until the first Optional Redemption Date of such Note determined on the basis of the rate of interest applicable to such Note from and including the Redemption Date.

14.9 Purchases

Subject to Condition 4, the Issuer and any of its Subsidiaries may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, any unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise.

14.10 Cancellation

All Notes which are redeemed, exchanged or purchased will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Issue and Paying Agent and cannot be re-issued or resold.

15. Taxation

All payments of principal and interest by or on behalf of the Issuer (including payments of Arrears of Interest) in respect of the Notes and Coupons will be made without withholding

or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom, or any political sub-division of, or any authority of, or in, the United Kingdom having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer will, in respect of payments of interest only and not in respect of payments of principal, pay such additional amounts as shall be necessary in order that the net amounts received by the Holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of any requirement to make such withholding or deduction; except that no such additional amounts shall be payable in relation to any Note or Coupon:

- (a) presented for payment by, or on behalf of, a Holder who is liable for such taxes, duties or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Note or Coupon; or
- (b) presented for payment by, or on behalf of, a Holder who would be able to avoid such withholding or deduction by complying with any statutory requirements (including, but not limited to, obtaining and/or presenting any form of certificate) or by making a declaration or any other statement or claim for exemption (including, but not limited to, a declaration of nonresidence), but fails to do so; or
- (c) presented for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day.

16. Prescription

- (a) Claims in respect of principal and interest or other sums payable hereunder will be prescribed unless made within 10 years (in the case of principal) or five years (in the case of interest) from the Relevant Date in relation thereto, subject to the provisions of Condition 13.2.
- (b) There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition 16 or Condition 13.2 or any Talon which would be void pursuant to Condition 13.2.

17. Events of Default and Enforcement

- (a) If a Default occurs and is continuing, the Trustee may, notwithstanding the provisions of Condition 17(c), institute proceedings for the winding-up in England and Wales (but not elsewhere) of the Issuer and/or prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer for such payment.

- (b) If an order is made by any competent court or resolution passed for the winding-up or dissolution of the Issuer, save for the purposes of a reconstruction or amalgamation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Holders of the Notes, the Trustee may, subject as provided below, give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at an amount equal to their principal amount outstanding together with any Arrears of Interest and any accrued interest as provided in the Trust Deed.
- (c) Without prejudice to Condition 17(a), the Trustee may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed, the Notes or the Coupons (other than any payment obligation of the Issuer relating to or arising from the Notes, the Coupons or the Trust Deed relating to them or arising therefrom) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it. Nothing in this Condition 17(c) shall, however, prevent the Trustee instituting proceedings for the winding-up of the Issuer, proving in any winding-up of the Issuer and/or claiming in any liquidation of the Issuer in respect of any payment obligations of the Issuer arising from or under the Notes, the Coupons or the Trust Deed (including any damages awarded for breach of any obligations).
- (d) The Trustee shall not be bound to take any of the actions referred to in this Condition 17 against the Issuer to enforce the terms of the Trust Deed, the relevant Notes or the relevant Coupons or to take any other action under the Trust Deed unless:
 - (i) it shall have been so requested by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders or in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding; and
 - (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction in accordance with Clause 10 of the Trust Deed.
- (e) No Holder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up in England and Wales of the Issuer or claim in the liquidation of the Issuer or to prove in such winding-up unless the Trustee, having become so bound to proceed or being able to prove in such winding-up or claim in such liquidation, fails to do so within a reasonable period and such failure is continuing, in which case a Holder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 17.

18. Replacement of Notes, Coupons and Talons

Should any Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Issue and Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) upon payment by the

claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

19. Paying Agents and Calculation Agent

- (a) The names of the initial Paying Agents and their specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the Final Terms.
- (b) The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:
 - (i) there will at all times be an Issue and Paying Agent and, in respect of Registered Notes, a Registrar; and
 - (ii) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority.
- (c) In addition, the Issuer shall appoint a Paying Agent approved in writing by the Trustee having a specified office in New York City in the circumstances described in Condition 13.3.
- (d) Notice of any variation, termination, appointment or change in Paying Agents will be given to Holders promptly by the Issuer in accordance with Condition 21.
- (e) In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and, in certain limited circumstances, the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Holders. The Agency Agreement contains provisions permitting any entity into which the Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent, registrar or exchange agent, as the case may be.

20. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Issue and Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due

in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 16.

21. Notices

- (a) All notices regarding Bearer Notes shall be published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the Financial Times. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to listing. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of publication in the last of such newspapers.
- (b) Notices to Holders of Registered Notes will be deemed to be validly given if sent by first class mail (or equivalent) or (if posted to an overseas address) by air mail to them (or, in the case of joint Holders, to the first-named in the register kept by the Registrar) at their respective addresses as recorded in the register kept by the Registrar, and will be deemed to have been validly given on the fourth weekday after the date of such mailing or, if posted from another country, on the fifth such day.
- (c) Notices to be given by any Holder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Issue and Paying Agent.

22. Meetings of Holders, Modification, Waiver, Determination and Substitution etc.

22.1 Conditions to Modification, Amendment, Waiver and Substitution

No modifications or amendments may be made to, nor any waiver granted in respect of, these Conditions or any of the provisions of the Trust Deed pursuant to Condition 22.2 or 22.3, nor may the Issuer be substituted as principal debtor under the Trust Deed, the Notes and the Coupons pursuant to Condition 22.4, unless the Issuer has given prior notice to the PRA, and the PRA has given its prior approval or consented to such modification, amendment, waiver or substitution, in each case in accordance with, and to the extent required under, the Capital Regulations applicable in relation to Tier 2 Capital at the time of such modification, amendment, waiver or substitution.

22.2 Meetings

- (a) The Trust Deed contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes and the Coupons relating to them or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer and shall be convened by the Issuer upon the request of Holders holding not less than 5 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing

an Extraordinary Resolution is one or more persons holding or representing more than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or the Coupons or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

- (b) The Trust Deed contains provisions for an Extraordinary Resolution to take the form of an instrument or instruments signed by the Holder or the Holders of not less than three-quarters in nominal amount of the Notes for the time being outstanding.

22.3 Modifications

- (a) The Trustee may agree, without the consent of the Holders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or determine that any Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of the Holders or to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which, in the opinion of the Trustee is proven.
- (b) Any modification, waiver, authorisation or determination shall be binding on the Holders and, unless the Trustee agrees otherwise, shall be notified by the Issuer to the Holders as soon as practicable thereafter in accordance with Condition 21.
- (c) The Trustee shall be obliged to concur with the Issuer in effecting any amendments to the interest calculation provisions and provisions related thereto of the Notes in the circumstances and as otherwise set out in Conditions 9 and 10 without the requirement for the consent or sanction of the Holders or Couponholders.

22.4 Substitution

- (a) Subject as provided in the Trust Deed the Trustee, if it is satisfied that to do so would not be materially prejudicial to the interests of the Holders, may agree with

the Issuer, without the consent of the Holders, to the substitution in place of the Issuer as principal debtor under the Trust Deed, the Notes and the Coupons of:

- (i) any Subsidiary of the Issuer;
- (ii) any successor in business of the Issuer;
- (iii) any Holding Company of the Issuer; or
- (iv) any other Subsidiary of such Holding Company,

provided that except where the new principal debtor is the successor in business or Holding Company of the Issuer the obligations of such new principal debtor under the Trust Deed, the Notes and the Coupons shall be unconditionally and irrevocably guaranteed by the Issuer or its Holding Company and provided further that the obligations of the Issuer or, as the case may be, its Holding Company under such guarantee shall be subordinated on a basis considered by the Trustee to be equivalent to that described in Condition 4.

- (b) Any substitution in accordance with the provisions of this Condition 22.4 shall be binding on the Holders and, unless the Trustee agrees otherwise, any such substitution shall be notified by the Issuer to the Holders as soon as practicable thereafter in accordance with Condition 21.

22.5 Exercise of Trustee's powers and discretions

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Holders as a class but shall not have regard to any interests arising from circumstances particular to individual Holders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers, authorities or discretions for individual Holders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Holder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Holders, except to the extent already provided for in Condition 15 and/or any undertaking given in addition to, or in substitution for, Condition 15 pursuant to the Trust Deed.

23. Further issues

The Issuer shall be at liberty from time to time without the consent of the Holders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes. The Trust Deed contains provisions for convening a single meeting of the Holders

and the holders of the notes of other series in circumstances where the Trustee so decides.

24. Definitions

In these Conditions:

“Adjustment Spread” means either a spread (which may be positive, negative or zero) or a formula or methodology for calculating a spread, in each case to be applied to a Successor Reference Rate or an Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

- (a) in the case of a Successor Reference Rate, is formally recommended in relation to the replacement of the Original Reference Rate with such Successor Reference Rate by any Relevant Nominating Body; or
- (b) in the case of a Successor Reference Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the relevant Independent Adviser or the Issuer (as applicable) determines is customarily applied to such Successor Reference Rate or Alternative Reference Rate (as applicable) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or
- (c) if the relevant Independent Adviser or the Issuer (as applicable) determines there is no such spread, formula or methodology customarily applied, the relevant Independent Adviser or the Issuer (as applicable) in its discretion determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by such Successor Reference Rate or Alternative Reference Rate (as applicable);

“Alternative Mid Swap Rate” has the meaning given to such term in Condition 9.4;

“Alternative Reference Rate” means the rate which is customarily applied in international debt capital markets transactions for the purposes of determining floating rates of interest in respect of notes denominated in the Specified Currency and of a comparable duration to the relevant Interest Periods, or, if the relevant Independent Adviser or the Issuer (as applicable) determines that there is no such rate, such other rate as such Independent Adviser or the Issuer (as applicable) determines in its discretion is most comparable to the Original Reference Rate;

“Arrears of Interest” means any interest payment which the Issuer has elected to defer on an Interest Payment Date in accordance with Condition 6 or Condition 7, together with any interest accrued thereon in the limited circumstances referred to in Condition 14.8 and any interest payments that the Issuer does not make because the Issuer does not satisfy the Solvency Condition, or either the Solvency Capital Requirement or the Minimum Capital Requirement is (or both are) not met, and which has not been satisfied,

or because an Insolvent Insurer Winding-up has occurred and is continuing on the relevant Interest Payment Date;

“Assets” means the total amount of the Issuer's non-consolidated gross assets as shown by the then latest published balance sheet, but adjusted for contingencies and for subsequent events, and to such extent as such person or persons giving the Solvency Condition report may determine;

“Auditors” means the auditors for the time being of the Issuer or, in the event of their being unable or unwilling promptly to carry out any action requested of them pursuant to the provisions of these Conditions or the Trust Deed, such other firm of accountants as may be nominated or approved by the Trustee after consultation with the Issuer;

“Benchmark Event” means:

- (a) the Original Reference Rate ceasing to be published for at least five consecutive Business Days or ceasing to exist or be administered; or
- (b) the later of (i) the making of a public statement by the administrator of the Original Reference Rate that it will, on or before a specified date, cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such rate) and (ii) the date falling six months prior to the specified date referred to in (b)(i); or
- (c) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that such rate has been permanently or indefinitely discontinued; or
- (d) the later of (i) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that such rate will, on or before a specified date, be permanently or indefinitely discontinued and (ii) the date falling six months prior to the specified date referred to in (d)(i); or
- (e) the later of (i) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that means such rate will be prohibited from being used, either generally or in respect of the Notes, or that means such use will be subject to restrictions or adverse consequences, in each case on or before a specified date, and (ii) the date falling six months prior to the specified date referred to in (e)(i); or
- (f) an official announcement by the regulatory supervisor of the administrator of the Original Reference Rate that such rate is no longer representative; or
- (g) it has become, or will become prior to the next Interest Determination Date, unlawful for any Paying Agent, the Issuer or any other party specified in the Final Terms as being responsible for such calculations to calculate any payments due to be made to any Holder or Couponholder using the Original Reference Rate.

“Business Day” means a day which is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the Final Terms (if any);
- (b) either:
 - (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); or
 - (ii) in relation to any sum payable in euro, a TARGET Business Day; and
- (c) where the relevant Final Terms specify that the Reference Rate is “Compounded Daily SOFR” or “Weighted Average SOFR”, a U.S. Government Securities Business Day and a New York City Banking Day.

“Calculation Amount” means the amount specified as such in the Final Terms;

“Capital Adequacy Condition” means:

- (a) in relation to The Prudential Assurance Company Limited, the Issuer’s wholly-owned subsidiary (“Prudential Assurance”), the ratio of its Regulatory Assets to its Regulatory Capital Requirement is at least 125%; or
- (b) if there is a Regulatory Capital Requirement applicable to the Issuer either directly or in relation to it and its Subsidiaries as a group, the Issuer exceeds such Regulatory Capital Requirement by a factor of at least 25% of such Regulatory Capital Requirement; or
- (c) if there is no Regulatory Capital Requirement applicable to the Issuer, its total Assets exceed its total Liabilities, other than liabilities to persons that are not Senior Creditors by at least 125% of such percentage specified by the PRA as the Regulatory Capital Requirement applicable to Prudential Assurance; or
- (d) in relation to the Issuer’s EEA Insurance Subsidiaries, each EEA Insurance Subsidiary complies with the Capital Regulations applicable to it;

“Capital Regulations” means the legislation, rules and regulations (whether having the force of law or otherwise) that require the Issuer or any of the Issuer’s EEA Insurance Subsidiaries to meet a Regulatory Capital Requirement including, without limitation, pursuant to Directive 98/78/EC and Directive 2002/87/EC of the European Union (the “Directives”), the Solvency II Regulations or any legislation, rules or regulations (whether having the force of law or otherwise) in any state within the European Economic Area

(which includes the European Union together with Norway, Liechtenstein and Iceland) implementing the Directives or Solvency II Regulations, and any amendment, supplement or replacement thereof from time to time;

“Capitalised EONIA” means the resultant figure of the following formula:

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{EONIA_1 \times n_1}{360} \right) - 1 \right] \times \frac{360}{d};$$

where:

“d₀” means, for the relevant Interest Period, the number of TARGET Business Days in such Interest Period;

“EONIA₁” has the meaning given to such term in this Condition 24;

“i” means a series of whole numbers from one to d₀, each representing the relevant TARGET Business Days in chronological order from, and including, the first TARGET Business Day in the relevant Interest Period;

“n₁” means the number of calendar days in the relevant Interest Period;

“d” means the number of calendar days in the relevant Interest Period;

“CMS Rate” shall mean the Relevant Swap Rate for swap transactions in the Reference Currency with a maturity of the Designated Maturity (expressed as a percentage rate per annum) which appears on the Relevant Screen Page as at the Relevant Time on the Interest Determination Date in question, all as determined by the Calculation Agent;

“Compounded Daily SOFR” means, in relation to an Interest Period, the rate of return of a daily compound interest investment (with SOFR as the reference rate for the calculation of interest) and will be calculated by the Calculation Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the Final Terms) as follows, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{SOFR_i \times n_i}{360} \right) - 1 \right] \times \frac{360}{d}$$

where:

“d” means, in relation to any Interest Period, the number of calendar days in such Interest Period;

“d₀” means, in relation to any Interest Period, the number of U.S. Government Securities Days in such Interest Period;

"Federal Reserve's Website" means the website of the Board of Governors of the Federal Reserve System currently at <http://www.federalreserve.gov>, or any successor website;

" i " means, in relation to any Interest Period, a series of whole numbers from one to d_0 , each representing the relevant U.S. Government Securities Business Day in chronological order from (and including) the first U.S. Government Securities Business Day in such Interest Period;

" n_i " means, in relation to any U.S. Government Securities Business Day " i ", the number of calendar days from (and including) such U.S. Government Securities Business Day " i " up to (but excluding) the following U.S. Government Securities Business Day;

"New York City Banking Day" means any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York City;

"New York Federal Reserve's Website" means the website of the Federal Reserve Bank of New York currently at <http://www.newyorkfed.org>, or any successor website;

"OBFR" or "Overnight Bank Funding Rate" means, in relation to any New York City Banking Day (the "OBFR Determination Date"), the daily overnight bank funding rate as published by the Federal Reserve Bank of New York, as the administrator of such rate (or any successor administrator) at or around 5:00 pm (New York City time) on the New York Federal Reserve's Website on the next succeeding New York City Banking Day for trades made on such OBFR Determination Date;

"OBFR Index Cessation Effective Date" means, in relation to an OBFR Index Cessation Event, the date on which the Federal Reserve Bank of New York (or any successor administrator of the daily Overnight Bank Funding Rate) ceases to publish the daily Overnight Bank Funding Rate or the date as of which the daily Overnight Bank Funding Rate may no longer be used;

"OBFR Index Cessation Event" means the occurrence of one or more of the following events:

- (i) a public statement by the Federal Reserve Bank of New York (or a successor administrator of the daily Overnight Bank Funding Rate) announcing that it has ceased or will cease to publish or provide the daily Overnight Bank Funding Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide a daily Overnight Bank Funding Rate;
- (ii) the publication of information which reasonably confirms that the Federal Reserve Bank of New York (or a successor administrator of the daily

Overnight Bank Funding Rate) has ceased or will cease to provide the daily Overnight Bank Funding Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide the daily Overnight Bank Funding Rate; or

- (iii) a public statement by a U.S. regulator or other U.S. official sector entity prohibiting the use of the daily Overnight Bank Funding Rate that applies to, but need not be limited to, all swap transactions, including existing swap transactions;

“SIFMA” means the Securities Industry and Financial Markets Association (or any successor thereto);

“SOFR” means:

- (i) in relation to any U.S. Government Securities Business Day (the "SOFR Determination Date"), the daily Secured Overnight Financing Rate published at or around 5:00 p.m. (New York City time) on the New York Federal Reserve's Website on the next succeeding U.S. Government Securities Business Day for trades made on such SOFR Determination Date;
- (ii) if the rate specified in (i) above is not so published, and a SOFR Index Cessation Event and SOFR Index Cessation Effective Date have not both occurred, the daily Secured Overnight Financing Rate in respect of the last U.S. Government Securities Business Day for which such rate was published on the New York Federal Reserve's Website; or
- (iii) if the rate specified in (i) above is not so published, and a SOFR Index Cessation Event and SOFR Index Cessation Effective Date have both occurred, “SOFR” in relation to such SOFR Determination Date shall be the rate that was recommended as the replacement for the daily Secured Overnight Financing Rate by the Federal Reserve Board and/or the Federal Reserve Bank of New York or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York for the purpose of recommending a replacement for the daily Secured Overnight Financing Rate (which rate may be produced by the Federal Reserve Bank of New York or other designated administrator, and which rate may include any adjustments or spreads); provided, however, that, if no such rate has been recommended within one U.S. Government Securities Business Day of the SOFR Index Cessation Effective Date, then:
 - (1) subject to (2) below, “SOFR” in relation to each SOFR Determination Date falling on or after the SOFR Index Cessation Effective Date shall be equal to the rate determined in accordance with (i) or (ii) above (as applicable) but as if:

- (aa) references in this definition of “Compounded Daily SOFR” to “U.S. Government Securities Business Day” were to “New York City Banking Day” (but so that, in the case of the Interest Period in which the SOFR Index Cessation Effective Date occurred, “d₀” shall be construed so that it means the aggregate of (x) the number of U.S. Government Securities Business Days in such Interest Period up to (but excluding) the SOFR Index Cessation Effective Date and (y) the number of New York City Banking Days in such Interest Period from (and including) the SOFR Index Cessation Effective Date, and “i” shall be construed accordingly);
 - (bb) references to “daily Secured Overnight Financing Rate” were to the “daily Overnight Bank Funding Rate”;
 - (cc) references to “SOFR Index Cessation Event” were references to “OBFR Index Cessation Event”; and
 - (dd) references to “SOFR Index Cessation Effective Date” were references to “OBFR Index Cessation Effective Date”; and
- (2) if the rate specified in (1) above is not so published and an OBFR Index Cessation Event and an OBFR Index Cessation Effective Date have both occurred, then, in relation to each SOFR Determination Date falling on or after the later of the SOFR Index Cessation Effective Date and the OBFR Index Cessation Effective Date, “SOFR” shall be equal to the rate determined in accordance with (i) above but as if:
- (aa) references in this definition of “Compounded Daily SOFR” to “U.S. Government Securities Business Day” were to “New York City Banking Day” (but so that, in the case of the Interest Period in which the SOFR Index Cessation Effective Date occurred, “d₀” shall be construed so that it means the aggregate of (x) the number of U.S. Government Securities Business Days in such Interest Period up to (but excluding) the SOFR Index Cessation Effective Date and (y) the number of New York City Banking Days in such Interest Period from (and including) the SOFR Index Cessation Effective Date, and “i” shall be construed accordingly); and
 - (bb) the reference in paragraph (i) above to the “daily Secured Overnight Financing Rate published at or around 5:00 p.m. (New York City time) on the New York Federal Reserve's Website on the next succeeding U.S.

Government Securities Business Day for trades made on such SOFR Determination Date” were a reference to the short-term interest rate target set by the Federal Open Market Committee, as published on the Federal Reserve's Website and as prevailing on such SOFR Determination Date, or if the Federal Open Market Committee has not set a single rate, the mid-point of the short-term interest rate target range set by the Federal Open Market Committee, as published on the Federal Reserve's Website and as prevailing on such SOFR Determination Date (calculated as the arithmetic average of the upper bound of the target range and the lower bound of the target range, rounded, if necessary, to the nearest second decimal place with 0.005 being rounded upwards);

“SOFR Index Cessation Effective Date” means, in relation to a SOFR Index Cessation Event, the date on which the Federal Reserve Bank of New York (or any successor administrator of the daily Secured Overnight Financing Rate) ceases to publish the daily Secured Overnight Financing Rate, or the date as of which the daily Secured Overnight Financing Rate may no longer be used;

“SOFR Index Cessation Event” means the occurrence of one or more of the following events:

- (i) a public statement by the Federal Reserve Bank of New York (or a successor administrator of the daily Secured Overnight Financing Rate) announcing that it has ceased or will cease to publish or provide the daily Secured Overnight Financing Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide a daily Secured Overnight Financing Rate;
- (ii) the publication of information which reasonably confirms that the Federal Reserve Bank of New York (or a successor administrator of the daily Secured Overnight Financing Rate) has ceased or will cease to provide the daily Secured Overnight Financing Rate permanently or indefinitely, provided that, at that time there is no successor administrator that will continue to publish or provide the daily Secured Overnight Financing Rate; or
- (iii) a public statement by a U.S. regulator or other U.S. official sector entity prohibiting the use of the daily Secured Overnight Financing Rate that applies to, but need not be limited to, all swap transactions, including existing swap transactions;

“SOFR Reset Date” means, in relation to any Interest Period, each U.S. Government Securities Business Day during such Interest Period, other than any U.S. Government Securities Business Day in the period from (and including) the

day following the Interest Determination Date to (but excluding) the corresponding Interest Payment Date (such period, the “Cut-Off Period”);

“SOFR_i” means, in relation to any Interest Period and any U.S. Government Securities Business Day “i”:

- (i) if such U.S. Government Securities Business Day is a SOFR Reset Date, SOFR in relation to the U.S. Government Securities Business Day immediately preceding such SOFR Reset Date; and
- (ii) if such U.S. Government Securities Business Day is not a SOFR Reset Date (being a U.S. Government Securities Business Day falling in the Cut-Off Period), SOFR in relation to the U.S. Government Securities Business Day immediately preceding the last SOFR Reset Date in such Interest Period; and

“U.S. Government Securities Business Day” means any day except for a Saturday, Sunday or a day on which SIFMA recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

“Compounded Daily SONIA” means the rate of return of a daily compound interest investment (with the daily Sterling overnight reference rate as reference rate for the calculation of interest) and will be calculated by the Calculation Agent on the relevant Interest Determination Date, as follows, and the resulting percentage will be rounded, if necessary, to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{SONIA_{i-pLBD} \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

“d” means the number of calendar days in the relevant Interest Period;

“d₀” means the number of London Business Days in the relevant Interest Period;

“i” means a series of whole numbers from one to d₀, each representing the relevant London Business Days in chronological order from, and including, the first London Business Day in the relevant Interest Period;

“London Business Day” or “LBD” means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London;

“n_i” means, in relation to any London Business Day “i”, the number of calendar days from and including such London Business Day up to, but excluding, the following London Business Day;

“Observation Period” means the period from, and including, the date falling “p” London Business Days prior to the first day of the relevant Interest Period (and the first Interest Period shall begin on and include the Interest Commencement Date) and ending on, but excluding, the date falling “p” London Business Days prior to the Interest Payment Date for such Interest Period (or the date falling “p” London Business Days prior to such earlier date, if any, on which the Notes become due and payable);

“p” means, for any Interest Period, the number of London Business Days included in the Observation Look-back Period, as specified in the Final Terms;

the “SONIA reference rate”, in respect of any London Business Day, is a reference rate equal to the daily Sterling Overnight Index Average (“SONIA”) rate for such London Business Day as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors (on the London Business Day immediately following such London Business Day); and

“SONIA_{i-pLBD}” means, in respect of any London Business Day falling in the relevant Interest Period, the SONIA reference rate for the London Business Day “i” falling “p” London Business Days prior to the relevant London Business Day “i”;

“Compulsory Interest Payment Date” means any Interest Payment Date on which:

- (a) the Issuer satisfies the Solvency Condition and both the Solvency Capital Requirement and the Minimum Capital Requirement are met, in each case both at the time of, and immediately after, the relevant interest payment; and
- (b) the Issuer has, in the six calendar months immediately preceding such Interest Payment Date, declared or paid any dividend on any class of its share capital;

“Dated Notes” means any Notes so specified in the Final Terms;

“Day Count Fraction” means, in respect of the calculation of an amount of interest for any Interest Period:

- (a) if “Actual/Actual (ICMA)” is specified in the Final Terms:
 - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of:
 - (A) the number of days in such Determination Period; and

- (B) the number of Determination Dates (as specified in the Final Terms) that would occur in one calendar year; or
- (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the Final Terms) that would occur in one calendar year; and
 - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (b) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of:
 - (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366; and
 - (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (c) if “Actual/365 (Fixed)” is specified in the Final Terms, the actual number of days in the Interest Period divided by 365;
- (d) if “Actual/365 (Sterling)” is specified in the Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (e) if “Actual/360” is specified in the Final Terms, the actual number of days in the Interest Period divided by 360;
- (f) if “30/360”, “360/360” or “Bond Basis” is specified in the Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (g) if “30E/360” or “Eurobond Basis” is specified in the Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30; and

- (h) if “30E/360 (ISDA)” is specified in the Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30;

a “Default” in respect of the Notes shall occur if:

- (a) the Issuer fails to pay the amount due to satisfy any interest payment which has not been deferred, and such failure continues for 14 days; or
- (b) the Issuer fails to pay the principal amount of the Notes, any accrued but unpaid interest and any Arrears of Interest on a Redemption Date, as may be postponed from time to time pursuant to these Conditions, and such failure continues for 14 days;

“Designated Account” means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a Holder with a Designated Bank and identified as such in the register and “Designated Bank” means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency and (in the case of a payment in euro) any bank which processes payments in euro;

“Designated Maturity” means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate;

“Determination Agent” means an investment bank or financial institution of international standing selected by the Issuer after consultation with the Trustee;

“Determination Period” means the period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on, the Determination Date falling after, such date);

“EEA Insurance Subsidiary” means any Subsidiary of the Issuer engaged in the insurance business and regulated as such by a member of the European Economic Area;

“EONIA₁” means, for any day “i” in the relevant Interest Period, a reference rate equal to the overnight rate as calculated by the European Central Bank and appearing on the Relevant Screen Page on the first TARGET Business Day following that day;

“EURIBOR” means the Euro-zone interbank offered rate;

“Fixed Interest Period” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date;

“Gross Redemption Yield” means, with respect to a security, the gross redemption yield on such security, expressed as a percentage and calculated by the Determination Agent on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields”, page 4, Section One: Price/Yield Formulae “Conventional Gilts”; “Double dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published 8 June 1998, as amended or updated from time to time) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) or on such other basis as the Trustee may approve in consultation with any relevant expert (such expert to be selected by the Trustee and approved by the Issuer), whose fees shall be payable together with the Trustee’s fees by the Issuer;

“Group” means the Issuer and its Subsidiaries;

“Group Insurance Undertaking” means an insurance undertaking whose data is included for the purposes of the calculation of the Solvency Capital Requirement of the Group pursuant to the Solvency II Regulations;

“HIBOR” means the Hong Kong interbank offered rate;

“Holding Company” means a parent undertaking within the meaning set out in section 1162 of the Companies Act 2006;

“IA Determination Cut-off Date” has the meaning given to such term in Condition 10.11;

“IA Mid Swap Determination Cut-off Date” has the meaning given to such term in Condition 9.4;

“Independent Adviser” means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets;

“Initial Rate of Interest” has the meaning specified in the Final Terms;

“Insolvent Insurer Winding-up” means:

- (a) the winding-up of any Group Insurance Undertaking; or
- (b) the appointment of an administrator of any Group Insurance Undertaking,

in each case where the Issuer has determined, acting reasonably, that all Policyholder Claims of the policyholders of that Group Insurance Undertaking may or will not be met;

“insurance undertaking” has the meaning given to such term in the Solvency II Regulations;

“Interest Amount” means:

- (a) in respect of a Fixed Rate Note, the amount payable on an Interest Payment Date in respect of such Fixed Rate Note, calculated in accordance with Condition 8.4;
- (b) in respect of a Reset Note, the amount payable on an Interest Payment Date in respect of such Reset Note, calculated in accordance with Condition 9.2(b);
- (c) in respect of a Floating Rate Note, the amount payable on an Interest Payment Date in respect of such Floating Rate Note, calculated in accordance with Condition 10.14; and
- (d) in respect of a Fixed/Floating Rate Note, the amount payable on an Interest Payment Date in respect of such Fixed/Floating Rate Note, calculated in accordance with Condition 8.4 (to the extent that the Fixed Rate Note Provisions apply in respect of the relevant Interest Period) or Condition 10.14 (to the extent that the Floating Rate Note Provisions apply in respect of the relevant Interest Period);

“Interest Basis” means the basis for calculation of interest payable in respect of a Note, as specified in the Final Terms;

“Interest Determination Date” means, in respect of an Interest Reset Date, the first New York City Banking Day prior to such Interest Reset Date;

“Interest Payment Date” means the first Interest Payment Date and any date or dates specified as such in the Final Terms (each such date a “Specified Interest Payment Date”) and, if a Business Day Convention is specified in the Final Terms:

- (a) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

“Interest Period” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date);

“Interest Rate Cut Off Date” means, in respect of an Interest Period, the fourth New York City Banking Day prior to the Interest Payment Date on which such Interest Period ends;

“Interest Reset Date” means, in respect of an Interest Period, each New York City Banking Day in such Interest Period up to and including the Interest Rate Cut Off Date;

“ISDA Definitions” means the 2006 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes;

“Issuer Determination Cut-off Date” has the meaning given to such term in Condition 10.11;

“Issuer Mid Swap Determination Cut-off Date” has the meaning given to such term in Condition 9.4;

“Level 2 Regulations” means Commission Delegated Regulation (EU) No. 2015/35 of 10 October, 2014 supplementing Directive 2009/138/EC of the European Union of 25 November, 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) (as amended);

“Liabilities” means the total amount of the Issuer’s non-consolidated gross liabilities as shown by the then latest published balance sheet, but adjusted for contingencies and subsequent events and to such extent as the person or persons giving the Solvency Condition report may determine;

“LIBOR” means the London interbank offered rate;

“London Business Day” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London;

“Long Maturity Note” means a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note;

“Make Whole Redemption Price” means, as specified in the Final Terms, (i) the Spens Amount, calculated in accordance with Condition 14.8(h), (ii) the Make Whole Redemption Amount, calculated in accordance with Condition 14.8(i), or (iii) the amount per Calculation Amount specified in the Final Terms, which shall be a single amount that applies from the Issue Date until redemption of the Notes;

“Margin” means the margin (if any) specified in the Final Terms;

“Mid Swap Benchmark Rate” means, subject as provided in Condition 9.4:

- (a) EURIBOR if the Specified Currency is euro;
- (b) HIBOR if the Specified Currency is Hong Kong dollars;
- (c) TIBOR if the Specified Currency is Japanese yen;
- (d) SIBOR if the Specified Currency is Singapore dollars; and
- (e) LIBOR for the Specified Currency if the Specified Currency is not one of the currencies listed in (a) to (d) of this definition;

“Mid Swap Maturity” has the meaning specified in the Final Terms;

“Mid Swap Rate” means for any Reset Period the arithmetic mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (calculated on the day count basis customary for fixed rate payments in the Specified Currency as determined by the Calculation Agent) of a fixed for floating interest rate swap transaction in the Specified Currency which transaction:

- (a) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date;
- (b) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market; and
- (c) has a floating leg based on the Mid Swap Benchmark Rate for the Mid Swap Maturity as specified in the Final Terms (calculated on the day count basis customary for floating rate payments in the Specified Currency as determined by the Calculation Agent);

“Minimum Capital Requirement” means the Minimum Capital Requirement of the Issuer, the Minimum Capital Requirement of the Group or the group Minimum Solvency Capital Requirement (as applicable) howsoever described in the Solvency II Regulations;

“New York City Banking Day” means any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York City;

“Optional Redemption Amount” means the amount so specified in the Final Terms, which shall be a single amount that applies from the Issue Date until redemption of the Notes;

“Optional Redemption Date” means the date so specified in the Final Terms, falling on or after the fifth anniversary of the Issue Date of the Notes;

“Ordinary Shares” means the ordinary shares of the Issuer, having at the date hereof, a par value of five pence each;

“Original Reference Rate” means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any relevant component part(s) thereof) on the Notes (or, if applicable, any other successor or alternative rate (or component part thereof)) determined and applicable to the Notes pursuant to the earlier operation of Condition 10.11;

“Other Tax Event” means an event of the type described in the definition of Tax Event occurring other than as a result of a Tax Law Change;

“Parity Securities” means capital instruments of the Issuer (including the Notes) preferred or preference shares or other securities issued by the Issuer together with any securities issued by a Subsidiary where such securities benefit from a guarantee or support agreement from the Issuer, the claims of the holders of which rank *pari passu* with the Notes as to participation in the Issuer’s assets in the event of its winding-up;

“Par Tax Event” means an event of the type described in the definition of Tax Event occurring as a result of a Tax Law Change;

“Payment Day” means any day which is (subject to Condition 16):

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the relevant place of presentation (in the case of Notes in definitive form only), London and each Additional Financial Centre specified in the Final Terms; and
- (b) either:
 - (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign

exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); or

- (ii) in relation to any sum payable in euro, a TARGET2 Business Day;

“Policyholder Claims” means claims of policyholders or beneficiaries in a winding-up, liquidation or administration of a Group Insurance Undertaking to the extent that those claims relate to any debt to which the Group Insurance Undertaking is, or may become, liable to a policyholder pursuant to a contract of insurance, including all amounts to which policyholders are entitled under applicable legislation or rules relating to the winding-up or administration of insurance companies to reflect any right to receive, or expectation of receiving, benefits which such policyholders may have;

“PRA” means the Bank of England in its capacity as the Prudential Regulation Authority or any successor regulatory body or such other governmental authority in the UK having primary supervisory authority with respect to the Group;

“Qualifying Tier 2 Capital” means notes that have terms not materially less favourable to a holder than the terms of the Notes as reasonably determined by the Issuer in consultation with an independent investment bank of international standing and certified by two Directors of the Issuer to the Trustee, provided that they shall:

- (a) contain terms which comply with then current requirements in relation to Tier 2 Capital;
- (b) bear the same rate of interest from time to time applying to the Notes and preserve the Interest Payment Dates;
- (c) contain terms providing for compulsory deferral of payments of interest and/or principal only if such terms are not materially less favourable to a holder thereof than the compulsory deferral provisions applying to the Notes;
- (d) rank at least *pari passu* with the Notes;
- (e) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption, but provide that such Qualifying Tier 2 Capital may not be redeemed by the Issuer prior to the first Optional Redemption Date (if any) (save for redemption, substitution or variation on terms analogous with the terms of Condition 14.3, 14.4, 14.5, 14.6 and 14.7 and subject to the same conditions as those set out in Condition 4.10);
- (f) do not contain any term which provides for, requires or entitles the Issuer to effect any loss absorption through a write-down of the nominal amount of Qualifying Tier 2 Capital or conversion of such Qualifying Tier 2 Capital into Ordinary Shares;

- (g) preserve any existing rights under these Conditions to any Arrears of Interest and any other amounts payable under the Notes which, in each case, has accrued to Holders and not been paid; and
- (h) are listed or admitted to trading on a Recognised Stock Exchange;

“Rating Agency” means any of:

- (a) Moody’s Investors Service Ltd;
- (b) S&P Global Ratings Europe Limited; or
- (c) Fitch Ratings Limited,

or any successor of, or substitute for, such entity;

a “Rating Event” will be deemed to occur upon a change in methodology of a Rating Agency (or in the interpretation of such methodology) as a result of which the equity content, credit or treatment assigned by a Rating Agency to the Notes is, in the reasonable opinion of the Issuer, materially reduced when compared with the equity content, credit or treatment assigned by a Rating Agency to the Notes on (or about) the date on which agreement is reached to issue the first Tranche of the Notes;

“Recognised Stock Exchange” means a recognised stock exchange as defined in section 1005 of the Income Tax Act 2007 as the same may be amended from time to time and any provisions, statute or statutory instrument replacing the same from time to time;

“Record Date” has the meaning given to such term in Condition 13.4(c)(ii);

“Redemption Date” means any date fixed for redemption in accordance with Condition 13;

“Reference Banks” means:

- (a) in respect of Reset Notes, the principal office in the Relevant Financial Centre of four major banks in the swap, money, securities or other market most closely connected with the Subsequent Reset Reference Rate as selected by the Issuer on the advice of an investment bank of international repute;
- (b) in respect of Floating Rate Notes (other than CMS Interest Linked Notes), in the case of a determination of LIBOR, the principal London office of four major banks in the London interbank market; in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone interbank market; and, in the case of a determination of a Reference Rate other than LIBOR or EURIBOR, the principal office in the Relevant Financial Centre of four major banks in the interbank market of the Relevant Financial Centre, in each case selected by the Issuer; and

- (c) in respect of CMS Interest Linked Notes, (i) where the Reference Currency is Euro, the principal office of five leading swap dealers in the interbank market, (ii) where the Reference Currency is Sterling, the principal London office of five leading swap dealers in the London interbank market, (iii) where the Reference Currency is United States dollars, the principal New York City office of five leading swap dealers in the New York City interbank market, or (iv) in the case of any other Reference Currency, the principal Relevant Financial Centre of five leading swap dealers in the Relevant Financial Centre interbank market, in each case as selected by the Issuer;

“Reference Bond” means for any Reset Period a government security or securities issued by the state responsible for issuing the Specified Currency (which, if the Specified Currency is euro, shall be Germany) selected by the Issuer on the advice of an investment bank of international repute as having an actual or interpolated maturity comparable with the relevant Reset Period that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the same currency as the Notes and of a comparable maturity to the relevant Reset Period;

“Reference Bond Price” means, with respect to any Reset Determination Date:

- (a) the arithmetic average of the Reference Government Bond Dealer Quotations for such Reset Determination Date, after excluding the highest and lowest such Reference Government Bond Dealer Quotations; or
- (b) if the Issue and Paying Agent obtains fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations;

“Reference Government Bond Dealer” means each of five banks (selected by the Issuer on the advice of an investment bank of international repute), or their affiliates, which are:

- (a) primary government securities dealers, and their respective successors; or
- (b) market makers in pricing corporate bond issues;

“Reference Government Bond Dealer Quotations” means, with respect to each Reference Government Bond Dealer and the relevant Reset Determination Date, the arithmetic average, as determined by the Calculation Agent, of the bid and offered prices for the relevant Reference Bond (expressed in each case as a percentage of its nominal amount) at or around the Subsequent Reset Rate Time on the relevant Reset Determination Date quoted in writing to the Calculation Agent by such Reference Government Bond Dealer;

“Reference Rate” means, as specified in the Final Terms:

- (a) LIBOR;
- (b) EURIBOR;

- (c) SIBOR;
- (d) TIBOR;
- (e) HIBOR;
- (f) Bank of England Base Rate;
- (g) EONIA;
- (h) SONIA;
- (i) the Federal Funds Rate;
- (j) the CMS Reference Rate;
- (k) Compounded Daily SOFR; or
- (l) Weighted Average SOFR,

in each case for the relevant currency and for the relevant period (if applicable), as specified for each in the Final Terms and in each case subject as provided in Condition 10.11;

“Regulatory Assets” means the assets eligible to satisfy the Regulatory Capital Requirement;

“Regulatory Capital Requirement” means any minimum or notional margin requirement in respect of solvency, or any minimum requirement in respect of regulatory capital or capital ratios for insurance companies, insurance holding companies or financial groups to which the Issuer, the Group or any insurance undertaking within the Group whether on a sole, group or consolidated basis is subject from time to time;

“Regulatory Event” is deemed to have occurred if the Notes are no longer capable of counting either:

- (a) as Tier 2 Capital for the purposes of the Issuer, the Group or any insurance undertaking within the Group whether on a solo, group or consolidated basis; or
- (b) as cover for capital requirements or treated as tier 2 “own funds” (howsoever described in the Capital Regulations and including any term or concept used to describe an equivalent measure or tier of capital resources contemplated by the Capital Regulations from time to time) applicable to the Issuer, the Group or any insurance undertaking within the Group whether on a solo, group or consolidated basis,

except where such non-qualification is as a result of any other applicable limitation on the amount of such capital;

“Relevant Banking Day” means a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Registrar is located;

“Relevant Date” means the date on which a payment first becomes due and payable, except that, if the full amount of the moneys payable has not been duly received by the Issue and Paying Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Holders in accordance with Condition 21;

“Relevant Financial Centre” means the financial centre specified as such in the Final Terms or if none is so specified: (i) in the case of a determination of LIBOR, London, (ii) in the case of a determination of EURIBOR, Brussels, (iii) in the case of a determination of SIBOR, Singapore, (iv) in the case of a determination of TIBOR, Tokyo, (v) in the case of a determination of HIBOR, Hong Kong or (vi) in the case of a determination of the Bank of England Base Rate, London;

“Relevant Nominating Body” means, in respect of any Original Reference Rate:

- (a) the central bank for the currency to which such Original Reference Rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of such Original Reference Rate; or
- (b) any working group or committee established, approved or sponsored by, chaired or co-chaired by or constituted at the request of (i) the central bank for the currency to which such Original Reference Rate relates, (ii) any central bank or other supervisory authority which is responsible for supervising the administrator of such Original Reference Rate, (iii) a group of the aforementioned central banks or other supervisory authorities or (iv) the Financial Stability Board or any part thereof;

“Relevant Screen Page” means the screen page specified in the Final Terms (or any successor);

“Relevant Swap Rate” means:

- (a) where the Reference Currency is euro, the mid-market annual swap rate determined on the basis of the arithmetic mean of the bid and offered rates for the annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating euro interest rate swap transaction with a term equal to the Designated Maturity commencing on the first day of the relevant Interest Period and in a Representative Amount with an acknowledged dealer of good credit in the swap market, where the floating leg, in each case calculated on an Actual/360 day count basis, is equivalent to EUR EURIBOR-Reuters (as defined in the ISDA Definitions) with a designated maturity determined by the Calculation Agent by reference to standard market practice and/or the ISDA Definitions;

- (b) where the Reference Currency is Sterling, the mid-market semi-annual swap rate determined on the basis of the arithmetic mean of the bid and offered rates for the semi-annual fixed leg, calculated on an Actual/365 (Fixed) day count basis, of a fixed-for-floating Sterling interest rate swap transaction with a term equal to the Designated Maturity commencing on the first day of the relevant Interest Period and in a Representative Amount with an acknowledged dealer of good credit in the swap market, where the floating leg, in each case calculated on an Actual/365 (Fixed) day count basis, is equivalent (A) if the Designated Maturity is greater than one year, to GBP LIBOR-BBA (as defined in the ISDA Definitions) with a designated maturity of six months or (B) if the Designated Maturity is one year or less, to GBP-LIBOR-BBA with a designated maturity of three months;
- (c) where the Reference Currency is United States dollars, the mid-market semi-annual swap rate determined on the basis of the mean of the bid and offered rates for the semi-annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating United States dollar interest rate swap transaction with a term equal to the Designated Maturity commencing on the first day of the relevant Interest Period and in a Representative Amount with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an Actual/360 day count basis, is equivalent to USD-LIBOR-BBA (as defined in the ISDA Definitions) with a designated maturity of three months; and
- (d) where the Reference Currency is any other currency, the mid-market swap rate as determined by the Issuer in its sole and absolute discretion on a commercial basis as it shall consider appropriate and in accordance with standard market practice;

“Relevant Time” means the time specified as such in the Final Terms or if none is so specified:

- (a) in the case of a determination of LIBOR, 11.00 a.m.;
- (b) in the case of a determination of EURIBOR, 11.00 a.m.;
- (c) in the case of a determination of SIBOR, 11.00 a.m.;
- (d) in the case of a determination of TIBOR, 11.00 a.m.;
- (e) in the case of a determination of HIBOR, 11.00 a.m.; or
- (f) in the case of a determination of the Bank of England Base Rate, 11.00 a.m.,

in each case, in the Relevant Financial Centre;

“Remaining Term Interest” means:

- (a) with respect to any Dated Note, the aggregate amount of scheduled payment(s) of interest (assuming each such scheduled interest payment to be due in full) on such Note for the remaining term to:
 - (i) the Maturity Date; or
 - (ii) if an Optional Redemption Date is specified in the Final Terms, the first Optional Redemption Date of such Note determined on the basis of the rate of interest applicable to such Note from and including the Redemption Date; and
- (b) with respect to any Undated Note, the aggregate amount of scheduled payment(s) of interest (assuming each such scheduled interest payment to be due in full) on such Note for the remaining term until the first Optional Redemption Date of such Note determined on the basis of the rate of interest applicable to such Note from and including the Redemption Date;

“Representative Amount” means an amount that is representative for a single transaction in the relevant market at the relevant time;

“Reset Date(s)” means the date(s) specified in the Final Terms;

“Reset Determination Date” means, for each Reset Period, the date as specified in the Final Terms falling on or before the commencement of such Reset Period on which the rate of interest applicable to such Reset Period will be determined;

“Reset Margin” means the margin specified in the Final Terms;

“Reset Period” means the period from (and including) the first Reset Date to (but excluding) the Maturity Date (if any) if there is only one Reset Period or, if there is more than one Reset Period, each period from (and including) one Reset Date (or the first Reset Date) to (but excluding) the next Reset Date up to (but excluding) the Maturity Date (if any);

“Senior Creditors” means any creditors of the Issuer who are unsubordinated creditors of the Issuer (including all policyholders and beneficiaries (and including, for the avoidance of doubt, all Policyholder Claims));

“SIBOR” means the Singapore interbank offered rate;

“Solvency Capital Requirement” means the Solvency Capital Requirement of the Issuer or the Solvency Capital Requirement of the Group referred to in the Solvency II Regulations;

“Solvency Condition” has the meaning set forth in Condition 4.5;

“Solvency II Directive” means Directive 2009/138/EC of the European Union of 25 November, 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) (as amended);

“Solvency II Regulations” means:

- (a) the Solvency II Directive; and
- (b) any additional measures adopted to give effect to the Solvency II Directive, whether by way of regulation (including, for the avoidance of doubt, the Level 2 Regulations), directives, implementing technical standards supplementing the Solvency II Directive, the rules and regulations of the PRA or otherwise;

“Subsequent Reset Rate” means, for any Reset Period, the sum of:

- (a) the applicable Subsequent Reset Reference Rate; and
- (b) the applicable Reset Margin (rounded down to four decimal places, with 0.00005 being rounded down);

“Subsequent Reset Rate Screen Page” has the meaning specified in the Final Terms;

“Subsequent Reset Rate Time” has the meaning specified in the Final Terms;

“Subsequent Reset Reference Rate” means either:

- (a) if “Mid Swaps” is specified in the Final Terms, the Mid Swap Rate displayed on the Subsequent Reset Rate Screen Page at or around the Subsequent Reset Rate Time on the relevant Reset Determination Date for such Reset Period; or
- (b) if “Reference Bond” is specified in the Final Terms, the annual yield to maturity or interpolated yield to maturity (on the relevant day count basis) of the relevant Reference Bond, assuming a price for such Reference Bond (expressed as a percentage of its nominal amount) equal to the relevant Reference Bond Price;

“Subsidiary” means a subsidiary undertaking within the meaning set out in section 1162 of the Companies Act 2006;

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent;

“Successor Reference Rate” means the rate which has been formally published, endorsed, approved, recommended or recognised as a successor or replacement to the relevant Original Reference Rate by any Relevant Nominating Body;

“TARGET Business Day” means a day on which the TARGET2 System is open for settlement of payments in euro;

“TARGET2 System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto;

“Tax Event” means an event where the Issuer determines that: (a) in making any interest payments or Arrears of Interest payments on the Notes, it has paid, or will or would on the next Interest Payment Date be required to pay, additional amounts as provided in Condition 9 and the same cannot be avoided by using reasonable measures available to it; (b) payments, including payment of Arrears of Interest on the next Interest Payment Date in respect of any Notes would be treated as “distributions” within the meaning of section 1000 of the Corporation Tax Act 2010 (as amended, re-enacted or replaced); or (c) the Issuer would not be entitled to obtain a deduction in computing its UK tax liabilities in respect of any interest payment (including payment of any Arrears of Interest) on the Notes as a class, or the value of the deduction to the Issuer would be materially reduced;

“Tax Law Change” means a change in or amendment to the laws or regulations of the United Kingdom or any political sub-division or any authority thereof or therein having power to tax (including any treaty to which the United Kingdom is a party), or any change in the application of official or generally published interpretation of those laws or regulations (including a change or amendment resulting from a holding by a court or tribunal or competent jurisdiction) which change or amendment becomes effective or, in the case of a change in law, is enacted on or after the date on which agreement is reached to issue the first Tranche of the Notes;

“TIBOR” means the Tokyo interbank offered rate;

“Tier 1 Capital” has the meaning given to such term for the purposes of the Capital Regulations from time to time;

“Tier 2 Capital” has the meaning given to such term for the purposes of the Capital Regulations from time to time;

“Tier 2 Own Funds” has the meaning given to such term in the Solvency II Regulations;

“Transfer Date” shall be the Relevant Banking Day following the day on which the relevant Registered Note shall have been surrendered for transfer in accordance with Condition 2.4;

“Undated Notes” means any Notes issued without a Maturity Date specified in the Final Terms.

“U.S. Federal Funds Rate” means, in respect of an Interest Determination Date, the rate for U.S. dollar federal funds on such Interest Determination Date as published in H.15(519) under the caption “Federal Funds (effective)” and displayed on Reuters (or any successor service) on page FEDFUNDS1 under the caption “EFFECT” (or any other page as may replace the specified page on that service) (“FEDFUNDS1 Page”), provided that:

- (a) if the U.S. Federal Funds Rate for an Interest Determination Date does not so appear on the FEDFUNDS1 Page or is not so published by 5.00 p.m. (New York

City time) on the Interest Reset Date, in respect of such Interest Determination Date, the U.S. Federal Funds Rate for such Interest Determination Date shall be as published in H.15 Daily Update, or such other recognised electronic source used for the purpose of displaying the applicable rate, under the caption “Federal funds (effective)”; and

- (b) if the U.S. Federal Funds Rate is not so published by 5.00 p.m. (New York City time) on the Interest Reset Date, the U.S. Federal Funds Rate with respect to such Interest Determination Date shall be the U.S. Federal Funds Rate for the first preceding day for which the U.S. Federal Funds Rate is set forth in H.15(519) opposite the caption “Federal funds (effective)”, as the U.S. Federal Funds Rate is displayed on the FEDFUNDS1 Page; and

“Weighted Average SOFR” means, in relation to any Interest Period, the arithmetic mean of $SOFR_i$ in effect for each U.S. Government Securities Business Day during such Interest Period (each such U.S. Government Securities Business Day, “i”), calculated by multiplying the relevant $SOFR_i$ for any U.S. Government Securities Business Day “i” by the number of days such $SOFR_i$ is in effect (being the number of calendar days from (and including) such U.S. Government Securities Business Day “i” up to (but excluding) the following U.S. Government Securities Business Day), determining the sum of such products and dividing such sum by the number of calendar days in the relevant Interest Period;

where:

“Federal Reserve's Website” means the website of the Board of Governors of the Federal Reserve System currently at <http://www.federalreserve.gov>, or any successor website;

“New York City Banking Day” means any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York City;

“New York Federal Reserve's Website” means the website of the Federal Reserve Bank of New York currently at <http://www.newyorkfed.org>, or any successor website;

“OBFR” or “Overnight Bank Funding Rate” means, in relation to any New York City Banking Day (the “OBFR Determination Date”), the daily overnight bank funding rate as published by the Federal Reserve Bank of New York, as the administrator of such rate (or any successor administrator) at or around 5:00 pm (New York City time) on the New York Federal Reserve's Website on the next succeeding New York City Banking Day for trades made on such OBFR Determination Date;

“OBFR Index Cessation Effective Date” means, in relation to an OBFR Index Cessation Event, the date on which the Federal Reserve Bank of New York (or any successor administrator of the daily Overnight Bank Funding Rate) ceases

to publish the daily Overnight Bank Funding Rate or the date as of which the daily Overnight Bank Funding Rate may no longer be used;

“OBFR Index Cessation Event” means the occurrence of one or more of the following events:

- (i) a public statement by the Federal Reserve Bank of New York (or a successor administrator of the daily Overnight Bank Funding Rate) announcing that it has ceased or will cease to publish or provide the daily Overnight Bank Funding Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide a daily Overnight Bank Funding Rate;
- (ii) the publication of information which reasonably confirms that the Federal Reserve Bank of New York (or a successor administrator of the daily Overnight Bank Funding Rate) has ceased or will cease to provide the daily Overnight Bank Funding Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide the daily Overnight Bank Funding Rate; or
- (iii) a public statement by a U.S. regulator or other U.S. official sector entity prohibiting the use of the daily Overnight Bank Funding Rate that applies to, but need not be limited to, all swap transactions, including existing swap transactions;

“SIFMA” means the Securities Industry and Financial Markets Association (or any successor thereto);

“SOFR” means:

- (i) in relation to any U.S. Government Securities Business Day (the “SOFR Determination Date”), the daily Secured Overnight Financing Rate published at or around 5:00 p.m. (New York City time) on the New York Federal Reserve’s Website on the next succeeding U.S. Government Securities Business Day for trades made on such SOFR Determination Date;
- (ii) if the rate specified in (i) above is not so published, and a SOFR Index Cessation Event and SOFR Index Cessation Effective Date have not both occurred, the daily Secured Overnight Financing Rate in respect of the last U.S. Government Securities Business Day for which such rate was published on the New York Federal Reserve’s Website; or
- (iii) if the rate specified in (i) above is not so published, and a SOFR Index Cessation Event and SOFR Index Cessation Effective Date have both occurred, “SOFR” in relation to such SOFR Determination Date shall be the rate that was recommended as the replacement for the daily Secured Overnight Financing Rate by the Federal Reserve Board and/or the

Federal Reserve Bank of New York or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York for the purpose of recommending a replacement for the daily Secured Overnight Financing Rate (which rate may be produced by the Federal Reserve Bank of New York or other designated administrator, and which rate may include any adjustments or spreads); provided, however, that, if no such rate has been recommended within one U.S. Government Securities Business Day of the SOFR Index Cessation Effective Date, then:

- (1) subject to (2) below, "SOFR" in relation to each SOFR Determination Date falling on or after the SOFR Index Cessation Effective Date shall be equal to the rate determined in accordance with (i) or (ii) above (as applicable) but as if:
 - (aa) references in this definition of "Weighted Average SOFR" to "U.S. Government Securities Business Day" were to "New York City Banking Day" (but so that, in the case of the Interest Period in which the SOFR Index Cessation Effective Date occurred, "Weighted Average SOFR" shall be construed so that it means the arithmetic mean of (x) SOFR_i in effect for each U.S. Government Securities Business Day in such Interest Period up to (but excluding) the SOFR Index Cessation Effective Date and (y) SOFR_i in effect for each New York City Banking Day in such Interest Period from (and including) the SOFR Index Cessation Effective Date, and the definition of "Weighted Average SOFR" shall be construed accordingly);
 - (bb) references to "daily Secured Overnight Financing Rate" were to the "daily Overnight Bank Funding Rate";
 - (cc) references to "SOFR Index Cessation Event" were references to "OBFR Index Cessation Event"; and
 - (dd) references to "SOFR Index Cessation Effective Date" were references to "OBFR Index Cessation Effective Date"; and
- (2) if the rate specified in (1) above is not so published and an OBFR Index Cessation Event and an OBFR Index Cessation Effective Date have both occurred, then, in relation to each SOFR Determination Date falling on or after the later of the SOFR Index Cessation Effective Date and the OBFR Index Cessation Effective Date, "SOFR" shall be equal to the rate determined in accordance with (i) above but as if:

- (aa) references in this definition of “Weighted Average SOFR” to “U.S. Government Securities Business Day” were to “New York City Banking Day” (but so that, in the case of the Interest Period in which the SOFR Index Cessation Effective Date occurred, “Weighted Average SOFR” shall be construed so that it means the arithmetic mean of (x) $SOFR_i$ in effect for each U.S. Government Securities Business Day in such Interest Period up to (but excluding) the SOFR Index Cessation Effective Date and (y) $SOFR_i$ in effect for each New York City Banking Day in such Interest Period from (and including) the SOFR Index Cessation Effective Date, and the definition of “Weighted Average SOFR” shall be construed accordingly); and
- (bb) the reference in paragraph (i) above to the “daily Secured Overnight Financing Rate published at or around 5:00 p.m. (New York City time) on the New York Federal Reserve's Website on the next succeeding U.S. Government Securities Business Day for trades made on such SOFR Determination Date” were a reference to the short-term interest rate target set by the Federal Open Market Committee, as published on the Federal Reserve's Website and as prevailing on such SOFR Determination Date, or if the Federal Open Market Committee has not set a single rate, the mid-point of the short-term interest rate target range set by the Federal Open Market Committee, as published on the Federal Reserve's Website and as prevailing on such SOFR Determination Date (calculated as the arithmetic average of the upper bound of the target range and the lower bound of the target range, rounded, if necessary, to the nearest second decimal place with 0.005 being rounded upwards);

“SOFR Index Cessation Effective Date” means, in relation to a SOFR Index Cessation Event, the date on which the Federal Reserve Bank of New York (or any successor administrator of the daily Secured Overnight Financing Rate) ceases to publish the daily Secured Overnight Financing Rate, or the date as of which the daily Secured Overnight Financing Rate may no longer be used;

“SOFR Index Cessation Event” means the occurrence of one or more of the following events:

- (i) a public statement by the Federal Reserve Bank of New York (or a successor administrator of the daily Secured Overnight Financing Rate) announcing that it has ceased or will cease to publish or provide the daily Secured Overnight Financing Rate permanently or indefinitely, provided

that, at that time, there is no successor administrator that will continue to publish or provide a daily Secured Overnight Financing Rate;

- (ii) the publication of information which reasonably confirms that the Federal Reserve Bank of New York (or a successor administrator of the daily Secured Overnight Financing Rate) has ceased or will cease to provide the daily Secured Overnight Financing Rate permanently or indefinitely, provided that, at that time there is no successor administrator that will continue to publish or provide the daily Secured Overnight Financing Rate; or
- (iii) a public statement by a U.S. regulator or other U.S. official sector entity prohibiting the use of the daily Secured Overnight Financing Rate that applies to, but need not be limited to, all swap transactions, including existing swap transactions;

“SOFR Reset Date” means, in relation to any Interest Period, each U.S. Government Securities Business Day during such Interest Period, other than any U.S. Government Securities Business Day in the period from (and including) the day following the Interest Determination Date to (but excluding) the corresponding Interest Payment Date (such period, the “Cut-Off Period”);

“SOFR_i” means, in relation to any Interest Period and any U.S. Government Securities Business Day “i”:

- (i) if such U.S. Government Securities Business Day is a SOFR Reset Date, SOFR in relation to the U.S. Government Securities Business Day immediately preceding such SOFR Reset Date; and
- (ii) if such U.S. Government Securities Business Day is not a SOFR Reset Date (being a U.S. Government Securities Business Day falling in the Cut-Off Period), SOFR in relation to the U.S. Government Securities Business Day immediately preceding the last SOFR Reset Date in such Interest Period; and

“U.S. Government Securities Business Day” means any day except for a Saturday, Sunday or a day on which SIFMA recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

“Weighted Average U.S. Federal Funds Rate” means:

D1/D2

where:

“D1” means, in respect of an Interest Period, the sum of the Relevant Rates for each calendar day in such Interest Period. For any calendar day in the relevant

Interest Period that is an Interest Determination Date, the “Relevant Rate” is the U.S. Federal Funds Rate on such Interest Determination Date. For any calendar day in such Interest Period that is not an Interest Determination Date, the Relevant Rate for such calendar day shall be the Relevant Rate on the immediately preceding Interest Determination Date; and

“D2” shall mean the number of calendar days in the Interest Period.

25. Governing Law

The Trust Deed, the Notes and the Coupons (and any non-contractual obligations arising therefrom or in connection therewith) shall be governed by, and construed in accordance with, English law.

26. Contracts (Rights Of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Notes which will apply to, and in some cases modify, the relevant Terms and Conditions of the Notes while the Notes are represented by the Global Notes.

1. Form of Global Notes

(a) Registered Notes

Unless otherwise provided with respect to a particular Series of Registered Notes, each Tranche of Registered Notes offered and sold in reliance on Regulation S under the Securities Act, which will be sold to non-U.S. persons outside the United States, will initially be represented by a Regulation S Global Note which will be deposited with a common depository or (in the case of Notes intended to be held under the NSS) a common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg or in the name of a nominee of the common safekeeper, as specified in the applicable Final Terms. Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 of the relevant Terms and Conditions and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

Registered Notes of each Tranche of a particular Series may only be offered and sold in the United States or to U.S. persons in private transactions to QIBs. The Registered Notes of each Tranche sold to QIBs in reliance on Rule 144A under the Securities Act will be represented by a Rule 144A Global Note which will be deposited with Citibank, N.A., London Branch as custodian for, and registered in the name of Cede & Co. as nominee for, DTC.

Registered Notes will not be exchangeable for Bearer Notes.

Interests in the Regulation S Global Note and the Rule 144A Global Note will be exchangeable for Definitive Registered Notes without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes “Exchange Event” means: (i) (in the case of both the Regulation S Global Note and the Rule 144A Global Note) (a) in respect of Senior Notes, an Event of Default (as defined in the Trust Deed) has occurred and is continuing; or (b) in respect of Tier 2 Notes, a Default has occurred and is continuing, (ii) (in the case of a Regulation S Global Note) Euroclear or Clearstream, Luxembourg has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and, in any such case, no alternative clearing system satisfactory to the Trustee is available; (iii) (in the case of the Rule 144A Global Note) DTC has notified the Issuer that it is no longer willing or

able to discharge properly its responsibilities as depositary with respect to the Rule 144A Global Note or has ceased to be a “Clearing Agency” registered under the Exchange Act or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary; and (iv) (in the case of both the Regulation S Global Note or the Rule 144A Global Note), the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Registered Notes represented by the relevant Registered Global Note in definitive form and a certificate to such effect signed by two directors of the Issuer is given to the Trustee. The Issuer will promptly give notice to the Holders in accordance with Condition 14 of the Terms and Conditions of the Senior Notes or, as the case may be, Condition 21 of the Terms and Conditions of the Tier 2 Notes if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or, as the case may be, DTC (acting on the instructions of any holder of an interest in the relevant Registered Global Note) or the Trustee may give notice to the Registrar requesting exchange and, in the case of (iv) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall take place not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Definitive Registered Notes may also be sold outside the United States in reliance on Regulation S under the Securities Act.

Payments of the principal of, and interest (if any) on, the Registered Global Notes will be made to the nominee of DTC and/or of Euroclear and/or Clearstream, Luxembourg as the registered holder(s) of the Registered Global Notes. None of the Issuer, the Trustee, any Paying Agent and the Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of interest on the Registered Global Notes will be made on the relevant payment date to the person in whose name such Notes are registered on the Record Date (as defined in Condition 6.4 of the Terms and Conditions of the Senior Notes or, as the case may be, Condition 13.4 of the Terms and Conditions of the Tier 2 Notes) immediately preceding such payment date.

The Holder of a Registered Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Registered Global Note and the Issuer will be discharged by payment to, or to the order of, the Holder of such Registered Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, DTC or any other clearing system as the beneficial holder of a particular nominal amount of Notes represented by such Registered Global Note must look solely to Euroclear, Clearstream, Luxembourg, DTC or such other clearing system, as

the case may be, for its share of each payment so made by the Issuer to, or to the order of, the Holder of such Registered Global Note.

(b) Bearer Notes

Each Tranche of Bearer Notes will initially be represented by either: (i) a Temporary Global Note; or (ii) a Permanent Global Note, in each case without interest coupons or talons. The Global Notes will (i) if the Bearer Global Notes are intended to be issued in NGN form ("NGN"), as specified in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper for Euroclear and Clearstream, Luxembourg; or (ii) if the Bearer Global Notes are not intended to be issued in NGN form, as specified in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common depository for Euroclear and Clearstream, Luxembourg. In the case of each Tranche of Bearer Notes the applicable Final Terms will specify whether U.S. Treasury Regulations § 1.163-5(c)(2)(i)(C) (or any successor U.S. Treasury Regulation Section including, without limitation, regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (the "C Rules") or U.S. Treasury Regulations § 1.163-5(c)(2)(i)(D) (or any successor U.S. Treasury Regulation Section including, without limitation, regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act 2010) (the "D Rules") would apply in relation to such Notes or, if such Notes do not have a maturity of more than one year and are not otherwise treated as in registered form for U.S. federal tax purposes, that TEFRA is not applicable. Bearer Notes (other than Temporary Global Notes) with an original maturity of more than one year and any Coupon or Talon appertaining thereto will bear a legend substantially to the following effect, unless the applicable Final Terms specify that C Rules apply or TEFRA does not apply: "ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(J) AND 1287(A) OF THE INTERNAL REVENUE CODE." The sections referred to in such legend provide that a United States person who holds a Bearer Note, Coupon or Talon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bearer Note, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

Whilst any Bearer Note is represented by a Temporary Global Note, payments of principal and interest (if any) due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream,

Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Issue and Paying Agent. The foregoing U.S. beneficial ownership certification requirement will not be applicable to payments of principal and interest (if any) on any Bearer Note that is treated as in registered form for U.S. federal income tax purposes.

On and after the date (the “Exchange Date”) which is 40 days after the date on which any Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for interests in a Permanent Global Note without interest coupons or talons or for Definitive Bearer Notes with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms) in each case (if the Bearer Notes are subject to the D Rules) against certification of beneficial ownership as described in the second sentence of the immediately preceding paragraph unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest or principal due on or after the Exchange Date unless upon due certification exchange of the Temporary Global Note is improperly withheld or refused.

Payments of principal and interest (if any) on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not issued in NGN form) without any requirement for certification. The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for Definitive Bearer Notes with, where applicable, interest coupons and talons attached either (a) upon not less than 30 days’ written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Issue and Paying Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes “Exchange Event” means that: (i) (a) in respect of Senior Notes, an Event of Default (as listed in Condition 10 of the Terms and Conditions of the Senior Notes) has occurred and is continuing or (b) in respect of Tier 2 Notes, a Default has occurred and is continuing; (ii) Euroclear or Clearstream, Luxembourg has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and, in any such case, no alternative clearing system satisfactory to the Trustee is available, or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Notes represented by the Permanent Global Note in definitive form and a certificate to such effect signed by two directors of the Issuer is given to the Trustee. The Issuer will promptly give notice to the Holders in accordance with Condition 14 of the Terms and Conditions of the Senior Notes or, as the case may be, Condition 21 of the Terms and Conditions of the Tier 2 Notes if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) or the Trustee may give notice to the Issue and Paying Agent requesting exchange and, in the case of (iii) above, the

Issuer may also give notice to the Issue and Paying Agent requesting exchange. Any such exchange shall take place not later than 45 days after the date of receipt of the first relevant notice by the Issue and Paying Agent.

The exchange upon notice option, as described in paragraph (a) above, should not be expressed to be applicable if the Notes are issued in denominations comprising a minimum Specified Denomination (such as €100,000 (or its equivalent in another currency)) plus one or more higher integral multiples of another smaller amount (such as €1,000 (or its equivalent in another currency)). Furthermore, such denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Bearer Notes.

Bearer Notes will not be exchangeable for Registered Notes.

(c) General

Pursuant to the Agency Agreement (as defined under the relevant Terms and Conditions), the Issue and Paying Agent shall arrange that, where a further Tranche of Notes is issued and represented by a Temporary Global Note, the Notes of such Tranche shall be assigned (where applicable) a common code and ISIN by Euroclear and Clearstream, Luxembourg or CUSIP number which are different from the common code and ISIN or CUSIP number assigned to Notes of any other Tranche of the same Series until at least 40 days (as notified by the Issue and Paying Agent to the relevant Dealer or, in the case of a syndicated issue, the lead manager) after the completion of the distribution of the Notes of such Tranche.

Notes which are represented by a Global Note will be transferable only in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case, to the extent applicable.

In respect of Notes represented by a global Note issued in NGN form or held under the NSS, the nominal amount of such Notes shall be the aggregate amount from time to time entered in the records of both Euroclear and Clearstream, Luxembourg. The records of Euroclear and Clearstream, Luxembourg shall be conclusive evidence of the nominal amount of such Notes and a statement issued by Euroclear and/or Clearstream, Luxembourg shall be conclusive evidence of the records of such parties at that time.

The Issuer has entered or will enter into an agreement with Euroclear and Clearstream, Luxembourg (the "ICSDs") in respect of any Notes issued in NGN form or held under the NSS that the Issuer may request be made eligible for settlement with the ICSDs (the "Issuer-ICSDs Agreement"). The Issuer-ICSDs Agreement sets out or will set out that the ICSDs will, in respect of any such Notes, *inter alia*, maintain records of their respective portion of the issue outstanding amount and will, upon the Issuer's request, produce a statement for

the Issuer's use showing the total nominal amount of its customer holding of such Notes as of a specified date.

Where the global Notes issued in respect of any Tranche are in NGN form or held under the NSS, the ICSDs will be notified whether or not such global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The common safekeeper for NGNs and Notes held under the NSS will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

2. Notices

For so long as all of the Notes of a Series are represented by either (i) a Temporary Global Note and/or a Permanent Global Note or (ii) one or more Registered Global Notes, and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg and/or DTC, notices to Holders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC (as the case may be) for communication to the relative Accountholders (as defined below) rather than by publication as required by Condition 14 of the Terms and Conditions of the Senior Notes or, as the case may be, Condition 21 of the Terms and Conditions of the Tier 2 Notes provided that, so long as such Notes are listed on a stock exchange or admitted to listing by another relevant authority, such stock exchange or other relevant authority so agrees. Any such notice shall be deemed to have been given to the Holders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg and/or DTC (as the case may be) as aforesaid.

3. Accountholders

For so long as all of the Notes of a Series are represented by either (i) a Temporary Global Note and/or a Permanent Global Note or (ii) one or more Registered Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg and/or DTC, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg or DTC as the holder of a particular nominal amount of such Notes (each an "Accountholder") (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg and/ or DTC (as the case may be) as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such nominal amount of such Notes for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Holders) other than with respect to the payment of principal and interest on such nominal amount of such Notes and, in the case of DTC or its nominee, voting, giving consents and making requests, the rights to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Temporary Global Note or, as the case may be, Permanent Global Note

or, as the case may be, the registered holder of the Registered Global Note in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg or DTC, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

4. Prescription

Claims against the Issuer in respect of principal and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 8 of the Terms and Conditions of the Senior Notes or, as the case may be, Condition 24 of the Terms and Conditions of the Tier 2 Notes).

5. Cancellation

Cancellation of any Note represented by a Global Note and required by the relevant Terms and Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Issue and Paying Agent of the reduction in the nominal amount of the relevant Global Note on the relevant schedule thereto.

6. Investor Put – Senior Notes only

For so long as all of the Senior Notes of a Series are represented by either (i) a Temporary Global Note and/or a Permanent Global Note or (ii) one or more Registered Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg and/or DTC, the option of the Holders provided for in Condition 7.4 of the Terms and Conditions of the Senior Notes may be exercised by the Accountholders giving a duly completed redemption notice in the form obtainable from any of the Paying Agents to the Issue and Paying Agent of the nominal amount of the Notes in respect of which such option is exercised and at the same time presenting or procuring the presentation of the relevant Global Note to the Issue and Paying Agent for notation accordingly within the time limits set forth in that Condition. Such redemption notices shall be given in accordance with the standard procedures of Euroclear and/or Clearstream, Luxembourg and/or DTC (as the case may be).

7. Issuer Call

For so long as all of the Senior Notes of a Series are represented by either (i) a Temporary Global Note and/or a Permanent Global Note or (ii) one or more Registered Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg and/or DTC, no drawing (if applicable) of Senior Notes will be required under Condition 7.3 of the Terms and Conditions of the Senior Notes in the event that the Issuer exercises its call option pursuant to Condition 7.3 in respect of less than the aggregate nominal amount of the Notes outstanding at such time. In such event, the standard procedures of Euroclear and/or Clearstream, Luxembourg and/or DTC shall operate to determine which interests in the Global Note(s) are to be subject to such option (to be

reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion).

8. Euroclear, Clearstream, Luxembourg and DTC

References herein to Euroclear and/or Clearstream, Luxembourg and/or DTC shall (except in relation to Notes issued in NGN form or held under the NSS) be deemed to include references to any other clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer, the Issue and Paying Agent and the Trustee.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for general corporate purposes.

DESCRIPTION OF THE GROUP

1. Introduction

The Issuer was incorporated and registered in England and Wales under the Companies Act as a private company limited by shares and under the name Voyager Dallas Holding Company Limited on 2 July 2018 with registered number 11444019. On 3 July 2018, the Issuer changed its name to M&G Prudential Limited. On 24 July 2019, the Issuer was re-registered as a public limited company and changed its name to M&G Prudential plc. On 16 September 2019, the Issuer changed its name to M&G plc.

On 14 March 2018, Prudential plc (the former parent company of the Issuer) announced its intention to undertake the Demerger. The Demerger became effective on 21 October 2019.

The principal activity of the Issuer is to act as the ultimate holding company of the Group. The principal legislation under which the Issuer operates is the Companies Act and regulations made thereunder.

The Issuer is domiciled in England and Wales with its registered and head office at 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom. The telephone number of the Issuer's registered office is +44 (0)20 7626 4588 and its website is <https://global.mandg.com/>. The information on the Issuer's website does not form part of this Prospectus.

The legal entity identifier ("LEI") of the Issuer is 254900TWUJUQ44TQJY84.

2. Business Overview

The Group is a leading savings and investments business. It serves around 5.5 million retail customers, who want to build and protect their life savings, and provides investment solutions to more than 800 institutional clients. The Group's innovative asset management and customer solutions are supported by its extensive investment capabilities, an international distribution network and two strong brands: Prudential and M&G Investments. The Group operates internationally and distributes its products across 28 markets through a network of 20 offices. In the UK and continental Europe, the Group provides a range of long-term savings and investment solutions, including PruFund. In the Americas, Africa, Asia and Australia, the Group also provides asset management solutions. As at 30 June 2019, the Group's AuMA totalled £341.1 billion.

The Group operates across two operating segments: Savings & Asset Management and Heritage. The Savings & Asset Management segment, with £210.4 billion AuMA as at 30 June 2019, comprises the Group's retail savings (including PruFund) and asset management business as well as its institutional asset management business. The Heritage segment, with £130.7 billion AuMA as at 30 June 2019, primarily comprises the Group's traditional with-profits business as well as its annuities and corporate pensions businesses.

The Group as an asset owner and asset manager

As at 30 June 2019, the Group held £188.0 billion of assets which back its retail savings solutions, legacy annuity products, with-profits policies and unit-linked solutions (the "Prudential UK&E

Assets”). The Group has an in-house fiduciary manager, the Investment Office, which manages these assets and aims to provide policyholders and customers with the best returns in the most efficient manner in line with their risk appetite. The Investment Office takes a dynamic approach to strategic asset allocation, which takes into account material shifts in capital market valuations. The investment philosophy of the Investment Office is underpinned by the following key strategies:

- Taking a long-term approach.
- Diversification across a variety of asset classes.
- Realising the importance of value and valuation.
- Seeking appropriate illiquidity and credit risk premiums.
- Investing in attractive new asset classes and developing the overall asset mix.
- Taking into account ESG issues.

The Investment Office comprises a team of economists, investment strategists and analysts. The fiduciary management activities of the Investment Office are undertaken within a governance framework for which the PAC board (which contains a majority of independent directors) is responsible.

The Prudential UK&E Assets are invested with M&G and a number of third party asset managers. As at 30 June 2019, £123.7 billion of the Prudential UK&E Assets were invested with M&G and £64.3 billion were invested with other asset managers. The majority of the other asset managers are asset managers in the Prudential Group.

The Group is an investment manager for retail customers, institutional clients and the Prudential UK&E Assets. As at 30 June 2019, it had £276.8 billion AuMA, of which £78.6 billion originated from external retail customers and £74.5 billion originated from external institutional clients. The Group's asset management business is specialised in active solutions with an opportunity to add significant value, with strengths in the less commoditised segments of the asset management market.

Savings & Asset Management: Retail

The Group offers a variety of savings and asset management solutions to its retail customers, including the Retirement Account (an online account-based plan that contains both a savings and drawdown feature), Individual Savings Account (“ISAs”), bonds and a broad range of investment funds. Most of the Group's retail savings solutions allow retail customers to invest in the Group's PruFund propositions, investment funds which offer individuals different rates of smoothed return aligned with their tolerance for risk.

The Group also offers a diversified range of actively managed mutual funds spanning the public markets, including cash, fixed income, international equities and real estate. These mutual funds are made available to retail customers through either UK domiciled OEICs or Luxembourg

domiciled SICAVs. They are distributed to retail customers using the Group's many business-to-business relationships in the UK, Europe, the Middle East & Africa, Asia-Pacific and the Americas.

The retail part of the Savings & Asset Management segment, with £135.9 billion AuMA as at 30 June 2019, provides a range of long-term savings and asset management solutions to the Group's retail customers.

Savings & Asset Management: Institutional

The Group's institutional asset management business offers clients access to a diverse range of fixed income and real estate investment products and services through segregated mandates and pooled funds. The institutional asset management business aims to help pension funds, sovereign wealth funds and other large institutional investors match liabilities and achieve their growth targets. It has a client-centric approach which focuses on offering bespoke solutions to solve clients' problems and on building and maintaining client trust by delivering on performance expectations. This approach has seen the AuMA from external institutional clients increase significantly over the last decade, from £22 billion as at 31 December 2008 to nearly £75 billion as at 30 June 2019.

The institutional asset management business has more than 800 clients and also provides active asset management services for the Investment Office. As at 30 June 2019, £123.7 billion of the AuMA of the institutional asset management business related to Prudential UK&E Assets managed by the Investment Office.

Heritage

The Group's Heritage segment, with £130.7 billion AuMA as at 30 June 2019, primarily comprises the Group's traditional with-profits business as well as its annuities and corporate pensions businesses. It also includes a number of smaller legacy businesses such as individual pensions and income drawdowns. In response to regulatory and market changes over the past decade, the Group has shifted new business sales away from the capital-intensive annuity business and corporate pensions to focus on other products. The majority of the products in the Group's Heritage segment are therefore closed to new customers, although top-ups from existing policyholders are permitted. Furthermore, these products still generate significant cash flow and adjusted operating profit before tax (£474 million of adjusted profit before tax for the six months ended 30 June 2019, £1,162 million of adjusted operating profit before tax in the year ended 31 December 2018, £483 million of adjusted operating profit for the six months ended 30 June 2018 and £847 million in the year ended 31 December 2017).

The Heritage business is one of the key areas of focus for the transformation programme which is being implemented by the Group as many of the products in this business are supported by legacy systems. Improving the Group's ability to ensure that its Heritage customers receive the best possible outcomes is an important focus of the programme.

3. Brands

The Group markets its propositions through its two well established operating brands: Prudential and M&G Investments.

The Prudential brand is a key part of the Group's heritage, with its origins tracing back to 1848. The Directors believe that the Prudential brand stands for integrity, security and trust – values which remain central to the Group's business today. The Group uses the Prudential brand to sell its retail savings solutions in the UK and continental Europe, including the Retirement Account and the Prudential ISA.

The M&G brand was first used more than 80 years ago, when M&G launched the first unit trust in the UK in 1931. The Directors believe that the M&G Investments brand stands for conviction, energy and originality – values which underpin the Group's asset management offering. The Group uses the M&G Investments brand to sell its retail and institutional asset management products. The M&G Investments brand is well established in its core European markets; remaining in the top 10 Fund Buyer Focus brands in Europe since 2011.

4. Market Overview

The Group competes in selected segments of the international financial services market, primarily in the UK and continental Europe, with other operations in the Americas, Africa, Asia and Australia. In the UK, the Group primarily competes in the savings and investments market, through its Prudential and M&G Investments brands, providing a range of long-term savings and asset management solutions for retail customers and institutional clients. Outside the UK, the Group primarily competes in the retail and institutional asset management markets through its M&G brand.

The UK is one of the largest savings and investments markets globally, with an estimated £2.9 trillion of onshore liquid assets as at 31 December 2017.¹ Between 2012 and 2017, the total market has grown at a compound annual growth rate of almost 6 per cent.² Looking forward, the UK savings and investments market is expected to reach a total of £3.3 trillion of onshore liquid assets by 2020.³ The European savings and investments market had a total of €25.2 trillion assets under management as at 31 December 2017, representing a 10 per cent increase over the course of 2017.⁴

After experiencing a 12 per cent gain in total assets under management in 2017, the total assets under management in the global asset management market fell by 4 per cent in 2018, from \$77.3 trillion to \$74.3 trillion.⁵ This was led notably by net outflows of \$2 trillion in North America and \$700 billion in Europe.⁶ Despite the challenging environment in 2018, the global asset management market is said to be on a fundamentally solid footing, with a predicted increase in the total assets under management to \$111.2 trillion by 2020 and \$145.4 trillion by 2025.⁷

¹ GlobalData, Wealth in the UK: Sizing the Market Opportunity (2017); The European Fund and Asset Management Association Asset Management Report (September 2018)

² GlobalData, Wealth in the UK: Sizing the Market Opportunity (2017)

³ GlobalData, Wealth in the UK: Sizing the Market Opportunity (2017)

⁴ The European Fund and Asset Management Association, Asset Management Report (2018)

⁵ Boston Consulting Group, Global Asset Management 2019: Will these 20s roar? (2019)

⁶ Boston Consulting Group, Global Asset Management 2019: Will these 20s roar? (2019)

⁷ PwC, Asset & Wealth Management Revolution: Embracing Exponential Change (2017)

5. Ratings

As at 19 December 2019 (being the latest practicable date prior to publication of this Prospectus), the Group's ratings were A2 by Moody's, A- by S&P and A+ by Fitch.

6. Directors of the Issuer

The Directors and their principal functions within the Issuer, together with a brief description of their principal business activities outside the Issuer, are set out below. The business address of each of the Directors (in such capacity) is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom.

Name	Position	Current directorships and partnerships
Mike Evans	Chair	Just Eat plc
John Foley	Chief Executive Officer	Mailliwear Limited The Mews (Tenterden) Management Company Limited Mundy Bois Limited
Clare Bousfield	Chief Financial Officer	Pacific Life Re Holdings Limited Pacific Life Re Limited Pacific Life Re Services Limited
Caroline Silver	Senior Independent Non-Executive Director	The Board of Trustees of the Victoria & Albert Museum The British United Provident Association Limited Meggitt plc PZ Cussons plc
Clive Adamson	Non-Executive Director	Ashmore Group plc J.P. Morgan Securities plc J.P. Morgan Europe Limited McKinsey & Company
Robin Lawther	Non-Executive Director	Ashurst LLP Nordea Bank ABP Oras Invest Oy UK Government Investments Limited
Clare Thompson	Non-Executive Director	The British United Provident Association Limited

There are no actual or potential conflicts of interest between the duties owed by the Directors to the Issuer and their private interests and/or other duties that they may also have.

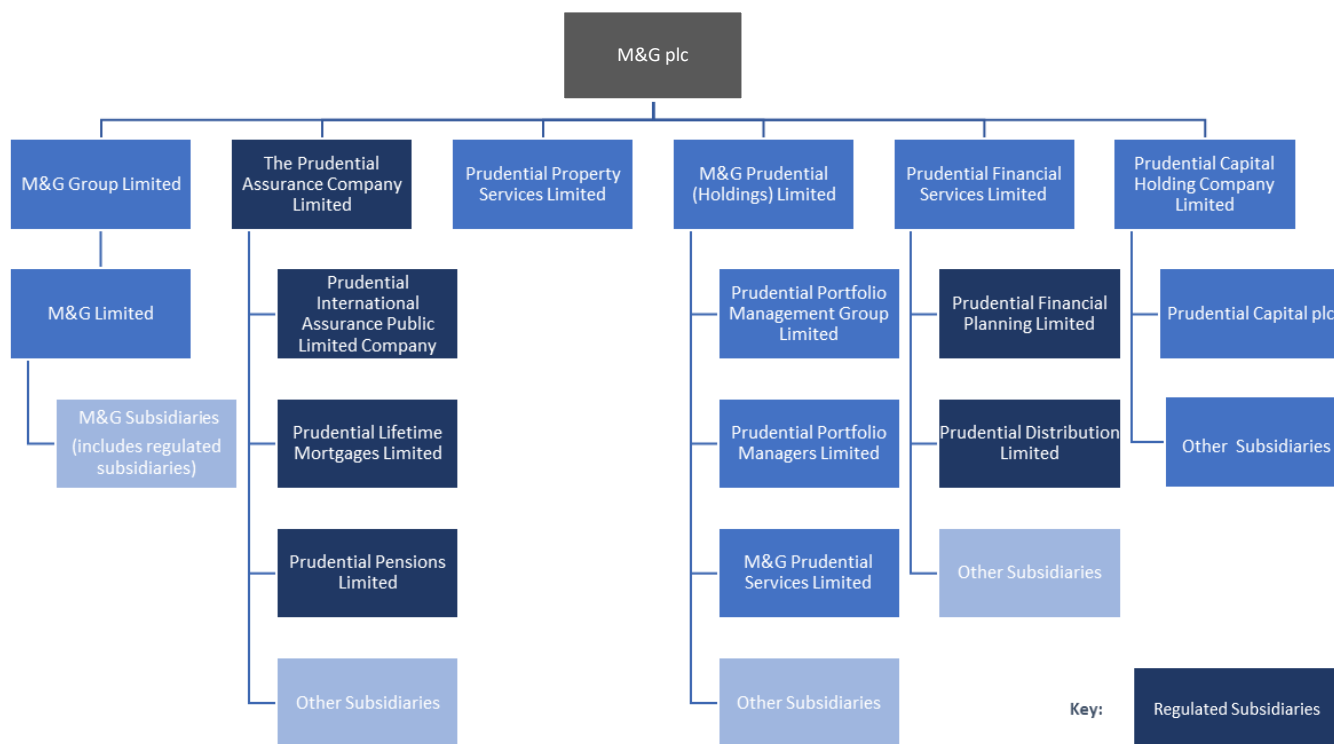
7. Organisational Structure

The Issuer is the principal holding company of the Group. The Issuer's assets substantially comprise shares in, and loans advanced to, Group companies. It does not conduct any other

business and is accordingly dependent on the other members of the Group and revenues received from them.

As far as is known to the Issuer, no person individually directly or indirectly owns or controls the Issuer.

The following diagram is an extract of the Group structure:



8. Capitalisation

The table below sets out the Group's capitalisation as at 21 October 2019, the date of the demerger.

Shareholders' equity	£m
Share capital	130
Share premium	370
Total	500

The capitalisation information presented above excludes retained earnings, the translation reserve and the merger reserve which arises on consolidation of the Group (£11,619 million). The merger reserve was set equal to the difference between the aggregated capital reserves and the fair value of PAC, M&G Group Limited, Prudential Property Services Limited and Prudential Financial Services Limited when transferred from Prudential plc to the Issuer in November 2018 and adjusted for the disposal of the Hong Kong registered subsidiaries of PAC in December 2018.

The Issuer was incorporated on 2 July 2018. Prior to this date, the business now carried out by the Group was not carried out by a separate legal entity or a separate group of entities. As a result, the Historical Financial Information has been prepared on a basis that combines the results, assets and liabilities of the Group's business and it is not meaningful to show the share capital or an analysis of reserves for the Group in the Historical Financial Information. As such, the net assets of the Group are represented in the Historical Financial Information by the cumulative investment of Prudential plc in the Group. This is presented in the Statement of Financial Position as invested capital.

9. Subordinated Debt

On 18 October 2019, following approval of the Demerger, Prudential plc transferred certain Tier 2 subordinated debt with a nominal amount (translated into Pounds Sterling at the exchange rate prevailing as at 18 October 2019, where applicable) of £3,240 million to the Issuer. This debt consists of the following instruments:

Instrument	Principal Amount (£m)
GBP 750,000,000 5.625 per cent Resettable Dated Tier 2 Notes due 20 October 2051	750
GBP 500,000,000 6.25 per cent Resettable Dated Tier 2 Notes due 20 October 2068	500
USD 500,000,000 6.50 per cent Resettable Dated Tier 2 Notes due 20 October 2048	390
GBP 700,000,000 6.34 per cent Resettable Dated Tier 2 Notes due 19 December 2063.....	700
GBP 600,000,000 5.56 per cent Resettable Dated Tier 2 Notes due 20 July 2055.....	600
GBP 300,000,000 3.875 per cent Resettable Dated Tier 2 Notes due 20 July 2049.....	300
Total subordinated debt of the Issuer post Demerger	3,240

The transfer of this debt was achieved by substituting the Issuer in the place of Prudential plc as issuer of such debt, as permitted under the terms and conditions of each applicable instrument.

10. Revolving Credit Facilities

In March 2019, the Group entered into the Revolving Credit Facilities which are due to mature in 2024. As at 21 October 2019, the Revolving Credit Facilities remain undrawn.

11. Parental Support Arrangements

At Demerger, the Issuer and PAC put in place arrangements to formalise circumstances in which capital support would be made available to PAC by the Issuer, and the circumstances in which Prudential Capital plc will guarantee and provide collateral in respect to a part of the Issuer's commitment. While the Issuer considers it unlikely that such support will be required, the arrangements are intended to provide additional comfort to PAC and its policyholders.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The unaudited pro forma information has been prepared on the basis of the notes set out below to illustrate the impact of the Demerger on the consolidated statement of financial position of the Group. The pro forma statement of financial position is based on the statement of financial position as at 30 June 2019 and has been prepared on the basis that the Demerger took place on that date.

The pro forma financial information has been prepared in accordance with the accounting policies normally adopted by the Group and applied in preparing the Historical Financial Information.

The unaudited pro forma information of the Group has been prepared for illustrative purposes only and in accordance with Annex 20 of Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004 (the “PR Regulation”). Because of its nature, the unaudited pro forma information of the Group addresses a hypothetical situation and, therefore, does not represent the actual financial position or results of the Group. It may not, therefore give a true picture of the Group’s financial position or results nor is it indicative of the results that may, or may not, be expected to be achieved in the future.

The unaudited pro forma information does not constitute a statutory account within the meaning of section 434 of the Companies Act. Prospective investors should read the whole of this Prospectus and not rely solely on the summarised financial information contained in this section.

Unaudited Pro Forma Statement of Financial Position

	Statement of financial position of the Group as at 30 June 2019	Adjustments			Pro forma
		Debt Substitution	Pre- demerger dividends	Other	
	Note 1	Note 2	Note 3	Note 4	Note 5
	£m	£m	£m	£m	£m
Assets					
Goodwill and intangible assets	1,422				1,422
Deferred acquisition costs	107				107
Investment in joint ventures and associates	605				605
Property, plant and equipment	1,383				1,383
Investment property	18,778				18,778
Defined benefit pension asset	51				51
Deferred tax assets	110			36	146
Reinsurance assets	2,690				2,690
Loans	5,997				5,997
Derivative assets	2,883				2,883
Equity securities and pooled investment funds	67,484				67,484
Deposits	16,792				16,792
Debt securities	85,174				85,174
Current tax assets	271				271
Accrued investment income and other debtors	3,149				3,149
Assets held for sale	10,170				10,170
Cash and cash equivalents	4,624	3,217	(3,155)	35	4,721
Total assets	221,690	3,217	(3,155)	71	221,823
Invested capital	8,498	(380)	(3,155)	68	5,031
Total Invested capital	8,498	(380)	(3,155)	68	5,031
Liabilities					
Insurance contract liabilities	76,398				76,398
Investment contract liabilities with discretionary participation features	67,360				67,360
Investment contract liabilities without discretionary participation features	15,695				15,695
Unallocated surplus of with- profits funds	15,810				15,810
Third party interest in consolidated funds	9,040				9,040

Borrowings and subordinated liabilities	3,712	3,597			7,309
Defined benefit pension liability	120				120
Lease liabilities	323				323
Deferred tax liabilities	1,187				1,187
Current tax liabilities	427			(32)	395
Derivative liabilities	2,677				2,677
Other financial liabilities	2,723				2,723
Provisions	416				416
Accruals, deferred income and other liabilities	7,140			35	7,175
Liabilities held for sale	10,164				10,164
Total liabilities	213,192	3,597		3	216,792
Total equity and liabilities	221,690	3,217	(3,155)	71	221,823

Notes

1. The statement of financial position has been extracted without material adjustment from the Historical Financial Information.
2. This adjustment represents the Debt Substitution (as defined below) as part of the Demerger. The consideration for the Debt Substitution was the original proceeds of issuance less unamortised transaction costs associated with such issuance (translated into Pounds Sterling at the exchange rate prevailing at 16 October 2019, where applicable). As at 30 June 2019, this equates to a payment of £3,217 million (translated into Pounds Sterling at the exchange rate prevailing at that date, where applicable). Prudential plc also paid the Issuer the Accrued Interest Amount (as defined below).

The debt has a fair value, excluding accrued interest, of £3,597 million at 30 June 2019. The difference between the consideration and the fair value of the debt has been accounted for as a distribution by the Issuer to Prudential plc.

The nominal value of £393 million, consideration of £391 million and fair value of £442 million in respect of the US\$ denominated debt has been translated at the 30 June 2019 exchange rate of 1.2727.

"Accrued Interest" means £26,000,000, being the agreed amount in respect of:

- (i) the amount of accrued interest expense that had not yet been paid to holders of the relevant debt instruments at the point of substitution; less
- (ii) an amount equivalent to certain coupon payments Prudential plc agreed to pay on behalf of M&G;

"Debt Substitution" means the transfer of Tier 2 subordinated debt with a nominal amount (translated into Pounds Sterling at the exchange rate prevailing as at 30 June 2019, where applicable) of £3,243 million from Prudential plc to the Issuer, in consideration for the payment from Prudential plc to the Issuer of an amount equal to the original proceeds of issuance less unamortised transaction costs associated with such issuance (translated into Pounds Sterling at the exchange rate prevailing at 16 October 2019, where applicable) plus the Accrued Interest Amount

3. This adjustment represents dividends of £3,155 million paid to Prudential plc, the Issuer's immediate parent prior to the Demerger, as part of the Demerger. This consists of a £2,968 million Pre-Demerger Dividend paid on 18 October 2019, together with a dividend of £187 million paid on 20 September 2019.
4. This adjustment represents the accrued interest of £35 million and the current and deferred tax impacts in respect of the Notes substituted by way of the Debt Substitution. £5 million of the accrued interest is in respect of the US\$ denominated debt translated at the 30 June 2019 exchange rate of 1.2727.

5. No adjustment has been made to reflect the trading results of the Group since 30 June 2019 or any other change in its financial position in this period.

Accountant's Report on Pro Forma Statement of Financial Position



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United Kingdom

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The Directors
M&G plc
10 Fenchurch Avenue
London, EC3M 5AG

20 December 2019

Ladies and Gentlemen

M&G plc

We report on the pro forma financial information (the 'Pro forma financial information') set out on pages 225 to 228 of the prospectus dated 20 December 2019, which has been prepared on the basis described, for illustrative purposes only, to provide information about how the demerger of M&G plc and Prudential plc might have affected the financial information presented on the basis of the accounting policies to be adopted by M&G plc in preparing the financial statements for the period ending 31 December 2019. This report is required by Section 3 of Annex 20 of Commission Delegated Regulation (EU) 2019/980 (the 'PR Regulation') and is given for the purpose of complying with that section and for no other purpose.

Responsibilities

It is the responsibility of the directors of M&G plc to prepare the Pro forma financial information in accordance with Annex 20 of the PR Regulation.

It is our responsibility to form an opinion, as required by Section 3 of Annex 20 of the PR Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.



Save for any responsibility arising under Prospectus Regulation Rule 5.3.5R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Item 1.3 of Annex 7 of the PR Regulation, consenting to its inclusion in the prospectus.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of M&G plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of M&G plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of M&G plc.

Declaration

For the purposes of Prospectus Regulation Rule 5.3.5R (2)(f) we are responsible for this report as part of the prospectus and declare that, to the best of our knowledge, the information contained in this report is in accordance with the facts and that the report contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with Item 1.2 of Annex 7 of the PR Regulation.

Yours faithfully

KPMG LLP

UNAUDITED PRO FORMA FINANCIAL SOLVENCY INFORMATION OF THE GROUP

The unaudited pro forma shareholder Solvency II capital position of the Group set out below has been prepared to illustrate the effect of the Demerger on the shareholder Solvency II capital position of the Group as if the Demerger had taken place on 30 June 2019 and in a manner consistent with the basis of Solvency II reporting of the Group at 30 June 2019 (the “Solvency II accounting policies”).

The unaudited pro forma shareholder Solvency II capital position of the Group has been prepared on the basis of, and should be read in conjunction with, the notes set out below.

The unaudited pro forma shareholder Solvency II capital position of the Group has been prepared for illustrative purposes only and in accordance with Annex 20 of the PR Regulation. Because of its nature, the unaudited pro forma shareholder Solvency II capital position of the Group addresses a hypothetical situation and, therefore, does not represent the actual Solvency II capital position following the Demerger. It may not, therefore, give a true picture of the shareholder Solvency II capital position of the Group, nor is it indicative of the capital position that may, or may not, be expected to be achieved in the future.

Unaudited Pro Forma Group Shareholder Solvency II Capital Position

	Group shareholder Solvency II position as at 30 June 2019	Adjustments			Pro forma
		Debt Substitution	Pre- demerger dividends	Other	
	Note 1 £bn	Note 2 £bn	Note 3 £bn	Note 4 £bn	Note 5 £bn
Own Funds	9.5	3.2	(3.2)	0.1	9.6
Solvency Capital Requirement	5.6				5.6
Surplus	3.9	3.2	(3.2)	0.1	4.0
Ratio (%)	169%				170%

Notes

1. The information on the shareholder Solvency II capital position of the Group as at 30 June 2019 has been extracted without material adjustment from the Historical Financial Information.
2. This adjustment represents the Debt Substitution (as defined below) as part of the Demerger. The consideration for the Debt Substitution was the original proceeds of issuance less unamortised transaction costs associated with such issuance (translated into Pounds Sterling at the exchange rate prevailing at 16 October 2019, where applicable). As at 30 June 2019, this equates to a payment of £3,217 million (translated into Pounds Sterling at the exchange rate prevailing at that date, where applicable). Prudential plc also paid the Issuer the Accrued Interest Amount.

The Own Funds impact reflects the consideration received of approximately £3.2 billion. The Notes meet the requirements to be counted as Solvency II Own Funds and therefore the Notes' liability obligations are reclassified as capital for the purposes of determining Own Funds.

The nominal value of £0.4 billion and consideration of £0.4 billion in respect of the US\$ denominated debt has been translated at the 30 June 2019 exchange rate of 1.2727.

“Accrued Interest” means £26,000,000, being the agreed amount in respect of:

- (i) the amount of accrued interest expense that had not yet been paid to holders of the relevant debt instruments at the point of substitution; less
- (ii) an amount equivalent to certain coupon payments Prudential plc agreed to pay on behalf of M&G;

“Debt Substitution” means the transfer of Tier 2 subordinated debt with a nominal amount (translated into Pounds Sterling at the exchange rate prevailing as at 30 June 2019, where applicable) of £3,243 million from Prudential plc to the Issuer, in consideration for the payment from Prudential plc to the Issuer of an amount equal to the original proceeds of issuance less unamortised transaction costs associated with such issuance (translated into Pounds Sterling at the exchange rate prevailing at 16 October 2019, where applicable) plus the Accrued Interest Amount

- 3. This adjustment represents dividends of £3.2 billion paid to Prudential plc, the Issuer’s immediate parent prior to the Demerger, as part of the Demerger. This consists of the £3.0 billion Pre-Demerger Dividend paid on 18 October 2019, together with a dividend of £0.2 billion paid on 20 September 2019.
- 4. This adjustment represents the accrued interest of £0.04 billion and the current and deferred tax impacts in respect of the Notes substituted by way of the Debt Substitution. £0.01 billion of the accrued interest is in respect of the US\$ denominated debt translated at the 30 June 2019 exchange rate of 1.2727.
- 5. No adjustment has been made to reflect the results of the Group or other changes in Solvency II capital position of the Group since 30 June 2019.

Accountant's Report on Pro Forma Solvency Information



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The Directors
M&G plc
10 Fenchurch Avenue
London, EC3M 5AG

20 December 2019

Ladies and Gentlemen

M&G plc

We report on the pro forma solvency information (the 'Pro forma Solvency information') set out on pages 231 and 232 of the prospectus dated 20 December 2019, which has been prepared on the basis described, for illustrative purposes only, to provide information about how the demerger of M&G plc and Prudential plc might have affected the solvency information presented on the Solvency II basis expected to be applied by M&G plc for the period ending 31 December 2019 (the 'Solvency Accounting Policies'). This report is required by Section 3 of Annex 20 of Commission Delegated Regulation (EU) 2019/980 (the 'PR Regulation') and is given for the purpose of complying with that section and for no other purpose.

Responsibilities

It is the responsibility of the directors of M&G plc to prepare the Pro forma Solvency information in accordance with Annex 20 of the PR Regulation.

It is our responsibility to form an opinion, as required by Section 3 of Annex 20 of the PR Regulation, as to the proper compilation of the Pro forma Solvency information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma Solvency information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.



Save for any responsibility arising under Prospectus Regulation Rule 5.3.5R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Item 1.3 of Annex 7 of the PR Regulation, consenting to its inclusion in the prospectus.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted solvency information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma Solvency information with the directors of M&G plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma Solvency information has been properly compiled on the basis stated and that such basis is consistent with the Solvency Accounting Policies of M&G plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro forma Solvency information has been properly compiled on the basis stated; and
- such basis is consistent with the Solvency Accounting Policies of M&G plc.

Declaration

For the purposes of Prospectus Regulation Rule 5.3.5R (2)(f) we are responsible for this report as part of the prospectus and declare that, to the best of our knowledge, the information contained in this report is in accordance with the facts and that the report contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with Item 1.2 of Annex 7 of the PR Regulation.

Yours faithfully

KPMG LLP

TAXATION

Prospective holders of Notes are advised to consult their own tax advisers as to the tax consequences, under the tax laws of the country of which they are resident, of a purchase of the Notes, including, without limitation, the consequences of the receipt of interest and premium, if any, on any sale or redemption of the Notes or any interest therein.

United Kingdom Taxation

The comments below are of a general nature and are based on the Issuer's understanding of current United Kingdom law as it applies to England and Wales and published HM Revenue & Customs ("HMRC") practice (which may not be binding on HMRC), in each case at the latest practicable date before the date of this Prospectus, regarding the withholding tax treatment of interest on the Notes. They only apply to persons who are the beneficial owners of the Notes. They may not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. They are not exhaustive. They relate only to the deduction from interest on the Notes for or on account of tax in the United Kingdom (and do not address any other United Kingdom taxation implications of acquiring, holding, or disposing of the Notes). Prospective holders of Notes who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom are strongly advised to consult their own professional advisers.

The references to "interest" in the comments below mean "interest" as understood in United Kingdom tax law. The comments below do not take any account of any different definitions of "interest" which may be created by the Terms and Conditions of the Notes or any relevant documentation.

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes carry a right to interest and the Notes are, and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part VI of the FSMA) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes carry a right to interest and are and remain so listed, interest on the Notes will be payable without withholding or deduction for or on account of United Kingdom tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where the Notes have a maturity date less than one year from the date of issue, provided that the Notes do not form part of an arrangement of borrowing intended to be, or capable of remaining, outstanding for a year or more.

In other cases, an amount must generally be withheld from payments of interest on the Notes that has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any other exemptions and reliefs which may be available under domestic law. In addition, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Holder, HMRC can, following an application by that Holder, issue a notice to the Issuer to pay interest to the Holder without

deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Where Notes are issued on terms that a premium is or may be payable on redemption, as opposed to being issued at a discount, then it is possible that any such element of premium may constitute a payment of interest for tax purposes. If that element does so constitute a payment of interest, the comments in paragraphs above and below will be relevant.

Where Notes are issued at a discount (i.e., at an issue price of less than 100 per cent. of their principal amount), any payments in respect of the accrued discount element of such Notes will not be made subject to any withholding or deduction on account of United Kingdom income tax as long as they do not constitute payments in respect of interest for tax purposes.

U.S. Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as “FATCA”, a “foreign financial institution” (as defined by FATCA) may be required to withhold on certain payments it makes (“foreign passthru payments”) to persons that fail to meet certain certification, reporting or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“IGAs”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. Noteholders should consult their own tax advisers regarding how these apply to their investment in Notes.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of Barclays Bank PLC, Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, Goldman Sachs International and Natwest Markets Plc (the “Dealers”). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a dealership agreement dated 20 December 2019 (as amended, restated, supplemented or otherwise modified from time to time, the “Dealership Agreement”) and made between the Issuer and the Dealers. Any such agreement will, *inter alia*, make provision for the form and Terms and Conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

United States of America

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state in the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act.

Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in the preceding sentence have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. Each Dealer has agreed that it will not offer, sell or deliver a Note in bearer form within the United States or to United States persons, except as permitted under the Dealership Agreement.

Each Dealer has agreed, and each further Dealer appointed under the Dealership Agreement will be required to agree, that except as permitted by the Dealership Agreement, it has not offered, sold or delivered Notes and it will not offer, sell or deliver Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution (as determined by the relevant Dealer (in the case of a non-syndicated issue) or the relevant lead manager (in the case of a syndicated issue)) of all Notes of the relevant Tranche except in accordance with Rule 903 of Regulation S or, if applicable, Rule 144A under the Securities Act and it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it or through it during the distribution compliance period a confirmation or notice setting forth the restrictions on offers and sales of the Notes within the United States or to or for the account or benefit of U.S. persons.

Except as otherwise provided, terms used in the remainder of this section of “*Subscription and Sale*” have the meanings given to them by Regulation S.

The Notes are being offered and sold only (i) outside the United States to persons other than U.S. persons in reliance upon Regulation S, and (ii) to QIBs in compliance with Rule 144A.

In addition, until 40 days after the completion of the distribution (as determined by the relevant Dealer (in the case of a non-syndicated issue) or the relevant lead manager (in the case of a syndicated issue)) of all Notes comprising any Tranche, any offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Each purchaser of Notes will be deemed to have represented and agreed as follows:

- (1) Either (i) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (ii) it is outside the United States and is not a U.S. person.
- (2) It acknowledges that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below.
- (3) It agrees that the Issuer has no obligation to register the Notes under the Securities Act.
- (4) If it holds an interest in a Definitive Registered Note or a Rule 144A Global Note, it will not offer, sell, resell, pledge or otherwise transfer or deliver the Notes except (A) to the Issuer or any affiliate thereof, (B) to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A under the Securities Act, (C) outside the United States in compliance with Rule 903 or 904 under the Securities Act, (D) pursuant to any other available exemption from the registration requirements of the Securities Act or (E) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. state securities laws, and any applicable local laws and regulations.
- (5) If it holds an interest in a Regulation S Global Note and is outside the United States and is not a U.S. person, if it should offer, sell, resell, pledge or otherwise transfer or deliver the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the completion of the distribution (for the purposes of Regulation S) of all of the Notes of the Tranche of which the Notes form a part), it will do so only (A) to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A under the Securities Act or (B) outside the United States in compliance with Rule 903 or 904 under the Securities Act, in each case in accordance with all applicable U.S. state securities laws, and any applicable local laws and regulations.
- (6) It will give to each person to whom it transfers the Notes notice of any restrictions on transfer applicable to the Notes.

- (7) It acknowledges that prior to any proposed transfer of Definitive Registered Notes or of beneficial interests in a Registered Global Note (in each case other than pursuant to an effective registration statement), the holder of the Notes or of interests therein may be required to provide certifications and other documentation relating to the manner of such transfer to the Issuer and the Registrar.
- (8) It acknowledges that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.
- (9) It understands that any Notes that are offered, sold or transferred in the United States or to or for the account or benefit of a U.S. person (as defined in Regulation S) will either be issued in the form of Definitive Registered Notes, registered in the name of the registered holder thereof, or be represented by a Rule 144A Global Note which will be deposited with a custodian for, and registered in the name of a nominee of, DTC.

Each Definitive Registered Note will bear a legend to the following effect:

“THE NOTES REPRESENTED BY THIS DEFINITIVE REGISTERED NOTE HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY BE TRANSFERRED ONLY PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AS SET FORTH BELOW.

THE REGISTERED OWNER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS DEFINITIVE REGISTERED NOTE IS ISSUED, (1) REPRESENTS FOR THE BENEFIT OF THE ISSUER AND FOR ANY AGENT OR SELLER WITH RESPECT TO THE NOTES THAT IT IS THE SOLE BENEFICIAL OWNER OF THE NOTES REPRESENTED HEREBY OR IS PURCHASING SUCH NOTES FOR ONE OR MORE ACCOUNTS MAINTAINED BY IT OR OVER WHICH IT EXERCISES SOLE INVESTMENT DISCRETION AND THAT EITHER (A) IT AND ANY SUCH ACCOUNT ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S OF THE SECURITIES ACT) AND ARE NOT PURCHASING SUCH NOTES FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON, OR (B) IT AND ANY SUCH ACCOUNT ARE QUALIFIED INSTITUTIONAL BUYERS (“QIBS”) AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT, (2) ACKNOWLEDGES THAT THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT AND MAY NOT BE OFFERED, SOLD, RESOLD OR DELIVERED IN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM SUCH ACT IN ACCORDANCE WITH THE TERMS HEREOF, AND (3) AGREES, FOR THE BENEFIT OF THE ISSUER, THAT SUCH NOTES MAY NOT BE OFFERED, SOLD, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DELIVERED EXCEPT IN COMPLIANCE WITH THE AGENCY AGREEMENT AND OTHER THAN (A) TO THE ISSUER OR ANY AFFILIATE THEREOF, (B) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A

TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (C) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR 904 UNDER THE SECURITIES ACT, (D) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR (E) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE U.S. STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS, AND FURTHER SUBJECT TO THE ISSUER'S AND THE REGISTRAR'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE, RESALE, PLEDGE, TRANSFER OR DELIVERY PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM.

PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLERS OF THE NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.

EACH HOLDER OF THIS DEFINITIVE REGISTERED NOTE AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS DEFINITIVE REGISTERED NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND."

Each Rule 144A Global Note will bear a legend to the following effect:

"THE NOTES REPRESENTED BY THIS GLOBAL NOTE HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY BE TRANSFERRED ONLY PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AS SET FORTH BELOW.

THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS GLOBAL NOTE IS ISSUED (OR ANY BENEFICIAL INTEREST OR PARTICIPATION HEREIN) ON ITS OWN BEHALF AND ON BEHALF OF ANY ACCOUNT FOR WHICH IT IS PURCHASING THIS GLOBAL NOTE OR ANY BENEFICIAL INTEREST OR PARTICIPATION HEREIN, (1) REPRESENTS FOR THE BENEFIT OF THE ISSUER AND FOR ANY AGENT OR SELLER WITH RESPECT TO SUCH NOTES THAT IT IS THE SOLE BENEFICIAL OWNER OF THE NOTES REPRESENTED HEREBY OR IS PURCHASING SUCH NOTES FOR ONE OR MORE ACCOUNTS MAINTAINED BY IT OR OVER WHICH IT EXERCISES SOLE INVESTMENT DISCRETION AND THAT EITHER (A) IT AND ANY SUCH ACCOUNT ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S OF THE SECURITIES ACT) AND ARE NOT PURCHASING SUCH NOTES FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON, OR (B) IT AND ANY SUCH ACCOUNT ARE QUALIFIED INSTITUTIONAL BUYERS ("QIBS") AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT, (2) ACKNOWLEDGES THAT SUCH NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT AND MAY NOT BE OFFERED, SOLD, RESOLD OR DELIVERED IN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM SUCH ACT IN ACCORDANCE WITH THE TERMS HEREOF, (3) AGREES TO NOTIFY ANY SUBSEQUENT TRANSFEREE OF THE TRANSFER RESTRICTIONS SET OUT HEREIN AND THAT IT WILL BE A CONDITION TO SUCH TRANSFER THAT THE TRANSFEREE WILL BE DEEMED TO MAKE THE REPRESENTATIONS

SET OUT HEREIN, AND (4) AGREES, FOR THE BENEFIT OF THE ISSUER, THAT SUCH NOTES MAY NOT BE OFFERED, SOLD, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DELIVERED EXCEPT IN COMPLIANCE WITH THE AGENCY AGREEMENT AND OTHER THAN (A) TO THE ISSUER OR ANY AFFILIATE THEREOF, (B) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (C) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR 904 UNDER THE SECURITIES ACT, (D) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR (E) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE U.S. STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS, AND FURTHER SUBJECT TO THE ISSUER'S AND THE REGISTRAR'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE, RESALE, PLEDGE, TRANSFER OR DELIVERY PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM.

PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLERS OF THE NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.

EACH HOLDER OF THIS GLOBAL NOTE OR AN INTEREST HEREIN AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND."

Each Regulation S Global Note will bear a legend to the following effect:

"THE NOTES REPRESENTED BY THIS GLOBAL NOTE HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR TRANSFER OF THE NOTES REPRESENTED BY THIS GLOBAL NOTE IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. BY PURCHASING OR OTHERWISE ACQUIRING THE NOTES REPRESENTED BY THIS GLOBAL NOTE, THE HOLDER THEREOF ACKNOWLEDGES THAT THE NOTES REPRESENTED BY THIS GLOBAL NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT. THE HOLDER AGREES FOR THE BENEFIT OF THE ISSUER THAT, IF IT SHOULD DECIDE TO DISPOSE OF THE NOTES REPRESENTED BY THIS GLOBAL NOTE PRIOR TO THE DATE WHICH IS 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF THE NOTES REPRESENTED BY THIS GLOBAL NOTE, THE NOTES REPRESENTED BY THIS GLOBAL NOTE MAY BE OFFERED, SOLD, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DELIVERED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND IN COMPLIANCE WITH THE AGENCY AGREEMENT, AND ONLY (A) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT OR (B) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR 904 UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE

U.S. STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS; PROVIDED THAT, IN THE CASE OF A TRANSFER PURSUANT TO CLAUSE (A), A TRANSFEROR OF THE NOTES WILL BE REQUIRED (1) TO EXECUTE AND DELIVER TO THE ISSUER AND THE REGISTRAR A CERTIFICATE OF TRANSFER (THE FORM OF WHICH IS ATTACHED TO THE AGENCY AGREEMENT AND CAN BE OBTAINED FROM THE REGISTRAR) AND (2) TO EXCHANGE THE PORTION OF THIS GLOBAL NOTE TO BE SO TRANSFERRED FOR AN INTEREST IN A RULE 144A GLOBAL NOTE OR A DEFINITIVE REGISTERED NOTE (AS SET OUT IN THE APPLICABLE FINAL TERMS) TO BE REGISTERED IN THE NAME OF THE TRANSFEREE.

EACH HOLDER OF THIS NOTE OR AN INTEREST HEREIN AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART."

Prohibition of Sales to EEA Retail Investors

Unless the Final Terms in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the EEA. For the purposes of this provision:

- (a) the expression "retail investor" means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
 - (ii) a customer within the meaning of the Insurance Distribution Directive where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in the Prospectus Regulation; and
- (b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the Final Terms in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the EEA, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the final terms in relation thereto to the public in that Member State except that it may make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Dealership Agreement will be required to represent and agree, that:

- (a) in relation to any Notes having a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 2 of the Prospectus Regulation and any application provision of Legislative Decree No. 58 of 24 February, 1998, as amended (the “Financial Services Act”) and Italian CONSOB regulations; or
- (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 1 of the Prospectus Regulation, Article 34-ter of Regulation No. 11971 of 14 May 1999, as amended from time to time, and the applicable Italian laws.

Any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must:

- (a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 20307 of 15 February, 2018 (as amended from time to time) and Legislative Decree No. 385 of 1 September, 1993, as amended (the “Banking Act”); and
- (b) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

Please note that in accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on public offerings applies under (i) and (ii) above, the subsequent distribution of the Notes on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such Notes being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.

Switzerland

This Prospectus and any Final Terms are not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Prospectus, any Final Terms nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange Ltd. or any other regulated trading facility in Switzerland, and neither this Prospectus, any Final Terms nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Dealership Agreement will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions Ordinance (Cap. 32) of Hong Kong) (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Dealership Agreement will be required to acknowledge, that this Prospectus has not been registered as a prospectus with the MAS. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Dealership Agreement will be required to represent and agree, that it has not circulated or distributed, nor will it circulate or distribute, this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, and has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018 of Singapore, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

Any reference to the SFA is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

France

Each of the Dealers and the Issuer has represented and agreed, and each further Dealer appointed under the Dealership Agreement will be required to represent and agree, that it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in France and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Prospectus, the applicable Final Terms or any other offering material relating to the Notes and that such offers, sales and distributions have been and will be made in France only to (i) providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), and/or (ii) qualified investors (*investisseurs qualifiés*), other than individuals, investing for their own account, all as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 of the French Code monétaire et financier and other applicable regulations.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "FIEA") and each Dealer has represented and agreed, and each further Dealer appointed under the Dealership Agreement will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1,

Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

General

Other than the approval of this Prospectus as a base prospectus in accordance with Article 8(1) of the Prospectus Regulation and, in relation to any issue of Notes, as may be specified in the applicable Final Terms, no action has been or will be taken in any country or jurisdiction by the Issuer or the Dealers that would permit a public offering of Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or have in their possession or distribute such offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date thereof, in applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in this paragraph headed “*General*”.

FORMS OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Senior Notes issued under the Programme.

M&G PLC

£10,000,000,000

Medium Term Note Programme

Series No: [•]

Tranche No: [•]

[Brief Description and Amount of Notes]

Issued by

M&G PLC

(LEI: 254900TWUJUQ44TQJY84)

Issue Price: [•] per cent.

The date of the Final Terms is [•].

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); (ii) a customer within the meaning of Directive (EU) 2016/97 (the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “Prospectus Regulation”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]⁸

MiFID II product governance / Professional investors and eligible counterparties only target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [MiFID II/Directive 2014/65/EU (as amended, “MiFID II”)]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [Details of any negative target market to be included if applicable]. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the manufacturer[‘s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[‘s/s’] target market assessment) and determining appropriate distribution channels.

[Notification under Section 309B(1) of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”) – *To insert notice of classification of the Notes is not “prescribed capital markets products” or Excluded Investment Products*]⁹

⁸ Legend to be included on front of the Final Terms if the Notes potentially constitute “packaged” products or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be “Applicable”.

⁹ Relevant Dealer(s) to consider whether it/they have received the necessary product classification from the relevant Issuer prior to the launch of the offer, pursuant to Section 309B of the SFA.

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 20 December 2019 [and the supplement[s] to it dated [date] [and [date]]] which [together] constitute[s] a base prospectus for the purposes of [the Prospectus Regulation / Regulation (EU) 2017/1129 (the “Prospectus Regulation”)] (the “Prospectus”). This document constitutes the Final Terms of the Notes described herein for the purposes of the Prospectus Regulation and must be read in conjunction with the Prospectus in order to obtain all the relevant information. The Prospectus has been published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

1.
 - (i) Series Number: []
 - (ii) Tranche Number: []
 - (iii) Date on which the Notes will be consolidated and form a single Series: [The Notes will be consolidated and form a single Series with [] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 23 below, which is expected to occur on or about []] / [Not Applicable]
2. Specified Currency: []
3. Aggregate Nominal Amount of Notes
 - Tranche: []
 - Series: []
4. Issue Price of Tranche: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from []]
5.
 - (i) Specified Denomination(s): []
 - (ii) Calculation Amount: []
6.
 - (i) Issue Date [and Interest Commencement Date]: []
 - [(ii)] Interest Commencement Date (if different from the Issue Date): [[]/Not Applicable]

7. Maturity Date: [[]]/[The Interest Payment Date falling in or nearest to []]
8. Interest Basis: [[] per cent. Fixed Rate]
 [[] month [LIBOR/EURIBOR/SIBOR/
 TIBOR/HIBOR/Bank of England Base Rate] +/- []
] per cent. Floating Rate]
 Floating Rate: EONIA Linked Interest
 Floating Rate: SONIA Linked Interest
 Floating Rate: Federal Funds Rate Linked Interest
 Floating Rate: CMS Linked Interest
 Floating Rate: Compounded Daily SOFR Rate
 Linked Interest
 Floating Rate: Weighted Average SOFR Rate
 Linked Interest
 [[] per cent. Fixed Rate until [], then
 calculated in accordance with paragraph 14
 below]
 [Zero Coupon]
9. Redemption/Payment Basis: Redemption at par
10. Change of Interest Basis or Redemption/Payment Basis: [[]/Not Applicable]
11. Put/Call Options: [Investor Put]
 [Issuer Call]
 [Not Applicable]
12. (i) Status of the Notes: Senior Notes
- (ii) Date of [Board/Committee] approval for issuance of Notes obtained: [] [and [] respectively]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
- (i) Rate(s) of Interest: [] per cent. per annum payable in arrear on each Interest Payment Date

- (ii) Interest Payment Date(s): [] [and []] in each year [up to and including the Maturity Date]
- (iii) Fixed Coupon Amount(s) [] per Calculation Amount
for Notes in definitive form
(and in relation to Notes in
global form see
Conditions):
- (iv) Broken Amount(s) for [] per Calculation Amount, payable on the
Notes in definitive form Interest Payment Date falling [in/on] []/Not
(and in relation to Notes in Applicable]
global form see
Conditions):
- (v) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]
- (vi) Determination Date(s): [] in each year/Not Applicable]
- 14. **Floating Rate Note Provisions:** [Applicable/Not Applicable]
- (i) Specified Period(s)/ []
Specified Interest
Payment Dates:
- (ii) Business Day [Floating Rate Convention/Following Business
Convention: Day Convention/Modified Following Business Day
Convention/Preceding Business Day Convention]
- (iii) Additional Business []/Not Applicable]
Centre(s):
- (iv) Manner in which the [Screen Rate Determination/ISDA Determination]
Rates of Interest and
Interest Amount is/are to
be determined:
- (v) Calculation Agent or other []
party responsible for
calculating the Rates of
Interest and Interest
Amounts (if not the Issue
and Paying Agent):
- (vi) Screen Rate
Determination:

- Reference Rate, Relevant Time and Relevant Financial Centre: Reference Rate: [] month [LIBOR/EURIBOR/SIBOR/TIBOR/HIBOR]/[Bank of England Base Rate]/[EONIA]/[SONIA]/[Federal Funds Rate]/[CMS Reference Rate]/[[Compounded Daily / Weighted Average] SOFR]
Relevant Time: []/[Not Applicable]
Relevant Financial Centre: []/[Not Applicable]
Reference Currency: []/[Not Applicable]
Designated Maturity: []/[Not Applicable]
- Interest Determination Date(s): []
- Relevant Screen Page: []
- Reference Rate Replacement [Applicable/Not Applicable]
- Observation Look-Back Period: [[•]/[Not Applicable]] [unless otherwise agreed with the Calculation Agent or such other person specified as the party responsible for calculating the Rate of Interest] [(being no less than 5 [London Business Days]/[U.S. Government Securities Business Days])]
- (vii) ISDA Determination: []
 - Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
- (viii) Linear Interpolation: [Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
- (ix) Margin(s): [+/-] [] per cent. per annum
- (x) Minimum Rate of Interest: [] per cent. per annum
- (xi) Maximum Rate of Interest: [] per cent. per annum
- (xii) Day Count Fraction: [Actual/Actual (ISDA)] [Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360]

		[30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)]
15.	Zero Coupon Notes Provisions:	[Applicable/Not Applicable]
	(i) Accrual Yield:	[] per cent. per annum
	(ii) Reference Price:	[]
	(iii) Day Count Fraction in relation to Early Redemption Amounts:	[30/360] [Actual/360] [Actual/365]
16.	Step-Up Rate of Interest:	[Applicable/Not Applicable]
	(i) Rate of Interest/Margin:	[]
	(ii) Method of determination of Rate of Interest:	[]
	(iii) Reset Date:	[]

PROVISIONS RELATING TO REDEMPTION

17.	Issuer Call:	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[]
	(ii) Optional Redemption Amount(s):	[[] per Calculation Amount/Make Whole Redemption Price]
	(iii) If redemption in part:	[]
	(a) Minimum Redemption Amount:	[]
	(b) Higher Redemption Amount:	[]
18.	Investor Put:	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[]

(ii)	Optional Redemption Amount(s):	[] per Calculation Amount
19.	Final Redemption Amount:	[] per Calculation Amount
20.	Early Redemption Amount(s) payable on redemption for taxation reasons (where applicable) or on event of default:	[] per Calculation Amount
21.	Make Whole Redemption Price:	[[] per Calculation Amount/Spens Amount/Make Whole Redemption Amount/Not Applicable]
(i)	Redemption Margin:	[[]/Not Applicable]
(ii)	Reference Bond:	[[]/Not Applicable]
(iii)	Quotation Time:	[[]]/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22.	Form of Notes:	
(i)	Form:	[Bearer Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 30 days' notice given at any time/only upon an Exchange Event]] [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date] [Permanent Global Note exchangeable for Definitive Notes on [30 days' notice given at any time/only upon an Exchange Event]] [Registered Notes: [Regulation S Global Note registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg] exchangeable for

Definitive Registered Notes only upon the occurrence of an Exchange Event]

[Rule 144A Global Note held by a custodian for DTC (specify nominal amounts) exchangeable for Definitive Registered Notes only upon the occurrence of an Exchange Event]]

(ii)	New Global Note:	[Yes/No]
23.	Additional Financial Centre(s):	[]/[Not Applicable]
24.	Talons for future Coupons to be attached to Definitive Notes:	[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]

Signed on behalf of the Issuer:

By:

Duly Authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing and admission to trading: Application has been made by the Issuer (or on its behalf) for the Notes to be listed on the Official List of the FCA and admitted to trading on the London Stock Exchange's Regulated Market with effect from [].

(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading)

- (ii) Estimate of total expenses relating to admission to trading: []

2. RATINGS

[The Notes to be issued [have been/are expected to be] assigned the following ratings:

[] by S&P Global Ratings Europe Limited

[] by Moody's Investors Service Ltd

[] by Fitch Ratings Limited]

[Insert brief explanation of the meaning of the ratings, if this has previously been published by the rating provider]

[Not Applicable]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

[Save for any fees [of [•]] payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.]

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

Reasons for the offer: See "Use of Proceeds" in the Prospectus

Estimated net proceeds: [•]

Estimated total expenses: [•]

5. **YIELD**

Indication of yield: [[]/Not Applicable]

6. **BENCHMARKS REGULATION** (*Floating Rate Notes and Reset Notes calculated by reference to benchmarks only*)

[Amounts payable under the Notes will be calculated by reference to [*specify benchmark (as this term is defined in the Benchmarks Regulation)*] which is provided by [*legal name of the benchmark administrator*]. As at the date of these Final Terms, [*legal name of the benchmark administrator*] [appears/does not appear] on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to Article 36 of Regulation (EU) 2016/1011 (the “Benchmarks Regulation”).

[As far as the Issuer is aware, [*specify benchmark (as this term is defined in the Benchmarks Regulation)*] [does not fall within the scope of the Benchmarks Regulation/the transitional provisions in Article 51 of the Benchmarks Regulation apply] such that [*legal name of the benchmark administrator*] is not currently required to obtain authorisation or registration (or, if located outside the EU, recognition, endorsement or equivalence).]

7. **OPERATIONAL INFORMATION**

ISIN Code: []

Common Code: []

Any clearing system (s) other than DTC, Euroclear and Clearstream, Luxembourg (together with the address of each such clearing system) and the relevant identification number(s): [[]/Not Applicable]

Names and addresses of additional Paying Agent(s) (if any): []

Intended to be held in a manner which would allow Eurosystem eligibility:

[Yes. Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)] [include this text for registered notes] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

[No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)] [include this text for registered notes]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

8. **THIRD PARTY INFORMATION**

[[] has been extracted from []. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [], no facts have been omitted which would render the reproduced information inaccurate or misleading.]/[Not Applicable]

9. **GENERAL**

Applicable TEFRA exemption: [C Rules/D Rules/Not Applicable]

144A Eligible: [144A Eligible/Not 144A Eligible]

Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]

(If the Notes clearly do not constitute “packaged” products or the Notes do constitute “packaged” products and a key information document will be prepared, “Not Applicable” should be specified and the relevant legend removed. If the Notes may constitute “packaged” products and no key information document will be prepared, “Applicable” should be specified and the relevant legend included)

Set out below is the form of Final Terms which will be completed for each Tranche of Tier 2 Notes issued under the Programme.

M&G PLC

£10,000,000,000

Medium Term Note Programme

Series No: [•]

Tranche No: [•]

[Brief Description and Amount of Notes]

Issued by

M&G PLC

(LEI: 254900TWUJUQ44TQJY84)

Issue Price: [•] per cent.

The date of the Final Terms is [•].

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); (ii) a customer within the meaning of Directive (EU) 2016/97 (the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “Prospectus Regulation”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]¹⁰

MiFID II product governance / Professional investors and eligible counterparties only target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [MiFID II/Directive 2014/65/EU (as amended, “MiFID II”)]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [Details of any negative target market to be included if applicable]. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the manufacturer[‘s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[‘s/s’] target market assessment) and determining appropriate distribution channels.

[Notification under Section 309B(1) of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”) – *To insert notice of classification of the Notes is not “prescribed capital markets products” or Excluded Investment Products*]¹¹

¹⁰ Legend to be included on front of the Final Terms if the Notes potentially constitute “packaged” products or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be “Applicable”.

¹¹ Relevant Dealer(s) to consider whether it/they have received the necessary product classification from the relevant Issuer prior to the launch of the offer, pursuant to Section 309B of the SFA.

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 20 December 2019 [and the supplement[s] to it dated [date] [and [date]]] which [together] constitute[s] a base prospectus for the purposes of [the Prospectus Regulation / Regulation (EU) 2017/1129 (the “Prospectus Regulation”)] (the “Prospectus”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 8(2) of the Prospectus Regulation and must be read in conjunction with the Prospectus in order to obtain all the relevant information. The Prospectus has been published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

1.	(i)	Series Number:	[]
	(ii)	Tranche Number:	[]
	(iii)	Date on which the Notes will be consolidated and form a single Series: [The Notes will be consolidated and form a single Series with [] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 23 below, which is expected to occur on or about []] / [Not Applicable]	
2.		Specified Currency:	[]
3.		Aggregate Nominal Amount of Notes	
		- Tranche:	[]
		- Series:	[]
4.		Issue Price of Tranche:	[] per cent. of the Aggregate Nominal Amount [plus accrued interest from []]
5.	(i)	Specified Denomination(s):	[]
	(ii)	Calculation Amount:	[]
6.	(i)	Issue Date [and Interest Commencement Date]:	[]

	[(ii)	Interest Commencement Date (if different from the Issue Date):	[[]/Not Applicable]
7.		Maturity Date (to be no earlier than the tenth anniversary of the Issue Date):	[[]/[The Interest Payment Date falling in or nearest to []] [Undated]
8.		Interest Basis:	[[] per cent. Fixed Rate] [[] month [LIBOR/EURIBOR/SIBOR/ TIBOR/HIBOR/Bank of England Base Rate] +/- [] per cent. Floating Rate] Floating Rate: EONIA Linked Interest Floating Rate: SONIA Linked Interest Floating Rate: Federal Funds Rate Linked Interest Floating Rate: CMS Linked Interest Floating Rate: Compounded Daily SOFR Rate Linked Interest Floating Rate: Weighted Average SOFR Rate Linked Interest [[] per cent. Fixed Rate until [], then calculated in accordance with paragraph 14 below]
9.		Redemption/Payment Basis:	Redemption at par
10.		Change of Interest Basis or Redemption/Payment Basis:	[[]/Not Applicable]
11.		Call Options:	[Issuer Call] [Not Applicable]
12.	(i)	Status of the Notes:	[Dated Tier 2 Notes/Undated Tier 2 Notes]
	(ii)	Date of [Board/Committee] approval for issuance of Notes obtained:	[] [and [] respectively]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13.	Fixed Rate Note Provisions	[Applicable/Not Applicable]

- (i) Rate(s) of Interest: [] per cent. per annum payable in arrear on each Interest Payment Date
 - (ii) Interest Payment Date(s): [] [and []] in each year [up to and including the Maturity Date]
 - (iii) Fixed Coupon Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions): [] per Calculation Amount
 - (iv) Broken Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions): [[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []/Not Applicable]
 - (v) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]
 - (vi) Determination Date(s): [[] in each year/Not Applicable]
 - (vii) Deferral of Interest: [Optional Interest Deferral/Capital Adequacy Interest Deferral]
 - (viii) Dividend and Capital Restriction: [Applicable/Not Applicable]
14. **Reset Note Provisions:** [Applicable/Not Applicable]
- (i) Initial Rate of Interest: [] per cent. per annum payable in arrear on each Interest Payment Date
 - (ii) Interest Payment Date(s): [] [and []] in each year [up to and including the Maturity Date]
 - (iii) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]
 - (iv) Determination Date(s): [[] in each year/Not Applicable]
 - (v) Reset Date(s): []
 - (vi) Subsequent Reset Reference Rate(s) and Relevant Financial Centre: Subsequent Reset Reference Rate: [Mid Swaps/Reference Bond]
Relevant Financial Centre: []

	(vii)	Reset Margin:	[]
	(viii)	Subsequent Reset Rate Screen Page:	[]
	(ix)	Mid Swap Maturity:	[]
	(x)	Reset Determination Date:	[]
	(xi)	Subsequent Reset Rate Time:	[]
	(xii)	Mid Swap Rate Replacement:	[Applicable/Not Applicable]
	(xiii)	Deferral of Interest:	[Optional Interest Deferral/Capital Adequacy Interest Deferral]
	(xiv)	Dividend and Capital Restriction:	[Applicable/Not Applicable]
15.		Floating Rate Note Provisions:	[Applicable/Not Applicable]
	(i)	Specified Period(s)/ Specified Interest Payment Dates:	[]
	(ii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Modified Business Day Convention/Preceding Business Day Convention/FRN Convention/Eurodollar Convention/No Adjustment]
	(iii)	Additional Business Centre(s):	[[]/Not Applicable]
	(iv)	Manner in which the Rates of Interest and Interest Amount is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(v)	Calculation Agent or other party responsible for calculating the Rates of Interest and Interest	[]

Amounts (if not the Issue
and Paying Agent):

- (vi) Screen Rate
Determination:
- Reference Rate, Relevant Time and Relevant Financial Centre: Reference Rate: [] month
[LIBOR/EURIBOR/SIBOR/TIBOR/HIBOR]/[Bank of England Base Rate]/[EONIA]/[SONIA]/[Federal Funds Rate]/[CMS Reference Rate]/[Compounded Daily / Weighted Average] SOFR

Relevant Time: []/[Not Applicable]
Relevant Financial Centre: []/[Not Applicable]
Reference Currency: []/[Not Applicable]
Designated Maturity: []/[Not Applicable]
 - Interest Determination Date(s): []
 - Relevant Screen Page: []
 - Reference Rate Replacement [Applicable/Not Applicable]
 - Observation Look-Back Period: [[*]/[Not Applicable]] [unless otherwise agreed with the Calculation Agent or such other person specified as the party responsible for calculating the Rate of Interest] [(being no less than 5 [London Business Days]/[U.S. Government Securities Business Days])]
- (vii) ISDA Determination: []
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
- (viii) Linear Interpolation: [Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
- (ix) Margin(s): [+/-] [] per cent. per annum

(x)	Minimum Rate of Interest:	[] per cent. per annum
(xi)	Maximum Rate of Interest:	[] per cent. per annum
(xii)	Day Count Fraction:	[Actual/Actual (ISDA)] [Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)]
(xiii)	Deferral of Interest:	[Optional Interest Deferral/Capital Adequacy Interest Deferral]
(xiv)	Dividend and Capital Restriction:	[Applicable/Not Applicable]
16.	Step-Up Rate of Interest:	[Applicable/Not Applicable]
(i)	Rate of Interest/Margin:	[]
(ii)	Method of determination of Rate of Interest:	[]
(iii)	Reset Date:	[]

PROVISIONS RELATING TO REDEMPTION

17.	(a)	Issuer Call:	[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s):	[]
	(ii)	Optional Redemption Amount(s):	[[] per Calculation Amount/Make Whole Redemption Price]
	(iii)	If redemption in part:	[]
		(a) Minimum Redemption Amount:	[]
		(b) Higher Redemption Amount:	[]

	(b)	Tax Event Redemption:	[Applicable/Not Applicable]
	(c)	Tax Event Redemption and Refinancing Option:	[Applicable/Not Applicable]
	(d)	Regulatory Event Redemption:	[Applicable/Not Applicable]
	(e)	Regulatory Event Redemption and Regulatory Event Refinancing Option:	[Applicable/Not Applicable]
	(f)	Rating Event Redemption:	[Applicable/Not Applicable]
18.		Final Redemption Amount:	[] per Calculation Amount
19.		Early Redemption Amount(s) payable on redemption for taxation reasons (where applicable) or on event of default:	[] per Calculation Amount
20.		Make Whole Redemption Price:	[[] per Calculation Amount/Spens Amount/Make Whole Redemption Amount/Not Applicable]
	(i)	Redemption Margin:	[[]/Not Applicable]
	(ii)	Reference Bond:	[[]/Not Applicable]
	(iii)	Quotation Time:	[[]]/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

21.	Form of Notes:	
	(i) Form:	[Bearer Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 30 days' notice given at any time/only upon an Exchange Event]]

[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]

[Permanent Global Note exchangeable for Definitive Notes on [30 days' notice given at any time/only upon an Exchange Event]]

[Registered Notes:

[Regulation S Global Note registered in the name of a nominee for [a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg] exchangeable for Definitive Registered Notes only upon the occurrence of an Exchange Event]

[Rule 144A Global Note held by a custodian for DTC (specify nominal amounts) exchangeable for Definitive Registered Notes only upon the occurrence of an Exchange Event]]

(ii)	New Global Note:	[Yes/No]
22.	Additional Financial Centre(s):	[]/[Not Applicable]
23.	Talons for future Coupons to be attached to Definitive Notes:	[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]
24.	Insolvent Insurer Winding-up Condition	[Applicable/Not Applicable]

Signed on behalf of the Issuer:

By:

Duly Authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing and admission to trading: Application has been made by the Issuer (or on its behalf) for the Notes to be listed on the Official List of the FCA and admitted to trading on the London Stock Exchange's Regulated Market with effect from [].

(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading)

- (ii) Estimate of total expenses relating to admission to trading: []

2. RATINGS

[The Notes to be issued [have been/are expected to be] assigned the following ratings:

[] by S&P Global Ratings Europe Limited

[] by Moody's Investors Service Ltd

[] by Fitch Ratings Limited]

[Insert brief explanation of the meaning of the ratings, if this has previously been published by the rating provider]

[Not Applicable]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

[Save for any fees [of [•]] payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.]

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

Reasons for the offer: See "Use of Proceeds" in the Prospectus

Estimated net proceeds: [•]

Estimated net proceeds: [•]

5. **YIELD**

Indication of yield: [[]/Not Applicable]

6. **BENCHMARKS REGULATION** (*Floating Rate Notes and Reset Notes calculated by reference to benchmarks only*)

[Amounts payable under the Notes will be calculated by reference to [*specify benchmark (as this term is defined in the Benchmarks Regulation)*] which is provided by [*legal name of the benchmark administrator*]. As at the date of these Final Terms, [*legal name of the benchmark administrator*] [appears/does not appear] on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to Article 36 of Regulation (EU) 2016/1011 (the “Benchmarks Regulation”).

[As far as the Issuer is aware, [*specify benchmark (as this term is defined in the Benchmarks Regulation)*] [does not fall within the scope of the Benchmarks Regulation/the transitional provisions in Article 51 of the Benchmarks Regulation apply] such that [*legal name of the benchmark administrator*] is not currently required to obtain authorisation or registration (or, if located outside the EU, recognition, endorsement or equivalence).]

7. **OPERATIONAL INFORMATION**

ISIN Code: []

Common Code: []

Any clearing system (s) other than DTC, Euroclear and Clearstream, Luxembourg (together with the address of each such clearing system) and the relevant identification number(s): [[]/Not Applicable]

Names and addresses of additional Paying Agent(s) (if any): []

Intended to be held in a manner which would allow Eurosystem eligibility:

[Yes. Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)] [include this text for registered notes] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

[No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)] [include this text for registered notes]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

8. **THIRD PARTY INFORMATION**

[[] has been extracted from []. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [], no facts have been omitted which would render the reproduced information inaccurate or misleading.]/[Not Applicable]

9. **GENERAL**

Applicable TEFRA exemption: [C Rules/D Rules/Not Applicable]

144A Eligible: [144A Eligible/Not 144A Eligible]

Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]

(If the Notes clearly do not constitute “packaged” products or the Notes do constitute “packaged” products and a key information document will be prepared, “Not Applicable” should be specified and the relevant legend removed. If the Notes may constitute “packaged” products and no key information document will be prepared, “Applicable” should be specified and the relevant legend included)

GENERAL INFORMATION

- (1) It is expected that the admission of the Programme in respect of the Notes to the Official List and to trading on the Market will be granted on or about 6 January 2019. Any Tranche of Notes intended to be admitted to the Official List and to trading on the Market will be so admitted upon submission to the FCA and the London Stock Exchange of the applicable Final Terms and any other information required by the FCA and the London Stock Exchange, subject to the issue of the Notes. Prior to listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. However, Notes may be issued which will not be admitted to the Official List and to trading on the Market or any other exchange.
- (2) The Issuer has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the establishment of the Programme. The establishment of the Programme was authorised pursuant to resolutions of the Board of Directors of the Issuer at a meeting held on 20 September 2019.
- (3) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The Common Code and the International Securities Identification Number ("ISIN") and the identification number for any other relevant clearing system for each Tranche of Notes will be set out in the applicable Final Terms. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium; the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg and the address of DTC is 55 Water Street, New York, NY 10041-0099. The address of any alternative clearing system will be specified in the applicable Final Terms.
- (4) For the period of 12 months following the date of this Prospectus, the following documents will, when published, be available for inspection on the Group's website at <https://global.mandg.com/investors/credit-investors/>:
 - (i) the up to date memorandum and articles of association of the Issuer;
 - (ii) the Trust Deed; and
 - (iii) all reports, letters, and other documents, valuations and statements prepared by any expert at the Issuer's request any part of which is included or referred to in the registration document.
- (5) Except as disclosed in note 33 to the Historical Financial Information, there has been no significant change in the financial position or financial performance of the Group as a whole since 30 June 2019.
- (6) The Historical Financial Information set out in Schedule I has been adjusted when compared with the Historical Financial Information set out in Schedule II within the Equity Prospectus. The adjustments comprise a reduction of £482m in technical provisions offset by an equal increase in the unallocated surplus of the with-profits funds as at 30 June 2019. There is no impact on profit for the six months to 30 June 2019 and no impact on other periods. These adjustments reflect the latest information available in respect of

experience that has emerged on the quantum of redress due to policyholders in respect of the pension mis-selling review and the latest data available for the calculation of technical provisions in respect of historic Group Pensions Annuity business.

- (7) There has been no material adverse change in the prospects of the Issuer since 31 December 2018.
- (8) There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the period covering at least the 12 months preceding the date of this Prospectus which may have, or have had in the recent past, a significant effect on the Issuer's and/or the Group's financial position or profitability.
- (9) The Issuer has not entered into any contracts (being contracts not entered into in the ordinary course of business) which are, or may be, material or which contain a provision under which the Issuer or another member of the Group has an obligation or entitlement which is material to the relevant Issuer's ability to meet its obligations to Noteholders in respect of Notes to be issued under the Programme.
- (10) The auditors of the Issuer since the date of its incorporation has been KPMG LLP, whose registered office is 15 Canada Square, London E14 5GL. KPMG LLP is a member of the Institute of Chartered Accountants in England and Wales and has no material interest in the Issuer.

The Trust Deed provides that any certificate or report called for by, or provided by, the Auditors (as defined in the Trust Deed) or any other expert in accordance with or for the purposes of the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts stated therein notwithstanding that any such certificate or report and/or any engagement letter or other document entered into by the Trustee and the Auditors or such other expert in connection therewith contains a monetary or other limit on the liability of the Auditors or such other expert.

- (11) The Issuer has received the following written consents, which are available for inspection as described in paragraph (4) above, in connection with the publication of this Prospectus:
 - KPMG LLP has given and not withdrawn its written consent to the inclusion in this Prospectus of –
 - its reports set out on pages 229 to 230 and pages 233 to 234; and
 - its report set out in Schedule I (*Historical Financial Information*),

in the form and context in which they appear and has authorised the contents of its reports for the purposes of Rule 5.3.5R(2)(f) of the Prospectus Regulation Rules (together, the "Consents").

- (12) The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.
- (13) Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

ISSUER

M&G plc
10 Fenchurch Avenue
London EC3M 5AG

TRUSTEE

The Law Debenture Trust Corporation p.l.c.
Fifth Floor
100 Wood Street
London EC2V 7EX

ISSUE AND PAYING AGENT AND REGISTRAR

Citibank, N.A., London Branch
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

DEALERS

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB

Goldman Sachs International
Plumtree Court
25 Shoe Lane
London EC4A 4AU

Natwest Markets Plc
250 Bishopsgate
London EC2M 4AA

LEGAL ADVISERS

To the Issuer
Slaughter and May
One Bunhill Row
London EC1Y 8YY
United Kingdom

To the Dealers and the Trustee
Allen & Overy LLP
One Bishops Square
London E1 6AD

AUDITORS

KPMG LLP
15 Canada Square
London E14 5GL

SCHEDULE 1
HISTORICAL FINANCIAL INFORMATION

Part A: Accountant's Report on the Historical Financial Information



KPMG LLP
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United Kingdom

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Private & confidential

The Directors
M&G plc
10 Fenchurch Avenue
London, EC3M 5AG

20 December 2019

Ladies and Gentlemen

M&G plc

We report on the financial information set out in Schedule I for the three years ended 31 December 2016, 2017 and 2018 and for the six months ended 30 June 2019. This financial information has been prepared for inclusion in the prospectus dated 20 December 2019 of M&G plc on the basis of the accounting policies set out in note 1.5. This report is required by Item 11.2.1 of Annex 7 of Commission Delegated Regulation (EU) 2019/980 (the 'PR Regulation') and is given for the purpose of complying with that item and for no other purpose. We have not audited or reviewed the financial information for the six months ended 30 June 2018 which has been included for comparative purposes only, and accordingly do not express an opinion thereon.

Responsibilities

The Directors of M&G plc are responsible for preparing the financial information on the basis of preparation set out in note 1.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Regulation Rule 5.3.5R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Item 1.3 of Annex 7 of the PR Regulation, consenting to its inclusion in the prospectus.



KPMG LLP
M&G plc
20 December 2019

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the prospectus dated 20 December 2019, a true and fair view of the state of affairs of M&G plc as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 June 2019 and of its combined profits, combined cash flows and combined changes in invested capital for the three years ended 31 December 2016, 2017 and 2018 and for the six months ended 30 June 2019 in accordance with the basis of preparation set out in note 1.

Declaration

For the purposes of Prospectus Regulation Rule 5.3.5R (2)(f) we are responsible for this report as part of the prospectus and declare that, to the best of our knowledge, the information contained in this report is in accordance with the facts and that the report contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with Item 1.2 of Annex 7 of the PR Regulation.

Yours faithfully

KPMG LLP

Part B: Historical Financial Information

Combined income statement

Note	For the six months ended 30 June		For the year ended 31 December		
	2019 £m	Unaudited 2018 £m	2018 £m	2017 £m	2016 £m
Gross premiums earned	5,907	6,555	13,061	13,126	10,290
Outward reinsurance premiums (i)	(487)	(12,598)	(13,137)	(1,050)	(1,005)
Earned premiums, net of reinsurance	5,420	(6,043)	(76)	12,076	9,285
Investment return	13,384	(82)	(3,683)	14,565	22,180
Fee income	627	686	1,361	1,211	973
Other income	16	201	237	24	147
Total revenue, net of reinsurance	19,447	(5,238)	(2,161)	27,876	32,585
Benefits and claims	(14,624)	(5,563)	(7,322)	(22,261)	(28,184)
Outward reinsurers' share of benefit and claims	407	12,031	12,230	1,033	1,532
Movement in unallocated surplus of with-profits funds	(2,247)	(29)	162	(1,757)	(1,178)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(16,464)	6,439	5,070	(22,985)	(27,830)
Administrative and other expenses	(1,161)	(1,193)	(2,657)	(2,532)	(2,223)
Movements in third party interest in consolidated funds	(428)	48	291	(715)	(377)
Finance costs	—	(4)	(4)	(9)	(9)
Total charges, net of reinsurance	(18,053)	5,290	2,700	(26,241)	(30,439)
Share of profit from joint ventures and associates	33	20	52	121	34
Profit before tax (ii)	1,427	72	591	1,756	2,180
Tax (charge)/credit attributable to policyholders' returns	(430)	10	406	(425)	(782)
Profit before tax attributable to equity holders	997	82	997	1,331	1,398
Total tax (charge)/credit	(633)	(5)	215	(682)	(1,046)
Less tax charge/(credit) attributable to policyholders' returns	430	(10)	(406)	425	782
Tax charge attributable to equity holders' returns	(203)	(15)	(191)	(257)	(264)
Profit for the period attributable to equity holders	794	67	806	1,074	1,134

(i) Outward reinsurance premiums for the six months ended 30 June 2018 and the year ended 31 December 2018 include £12,149m in respect of reinsurance of the UK annuity portfolio. The associated increase in reinsurance assets is included in outward reinsurers' share of benefit and claims in the same periods. See Note 2 for further details.

(ii) This measure is the profit before tax measure under IFRS but it is not the result attributable to equity holders. This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Group under IFRS. Consequently, profit before tax is not representative of pre-tax profits attributable to equity holders. Profit before tax is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of with-profits fund after adjusting for taxes borne by policyholders.

Combined statement of comprehensive income

Note	For the six months ended 30 June		For the year ended 31 December		
	2019	Unaudited 2018	2018	2017	2016
	£m	£m	£m	£m	£m
Profit for the period	794	67	806	1,074	1,134
Other comprehensive income/(loss):					
Items that may be reclassified subsequently to profit or loss:					
Exchange movements arising on foreign operations	1	(6)	—	6	12
Items that will not be reclassified to profit or loss:					
(Loss)/gain on remeasurement of defined benefit pension asset	16	(192)	104	114	165
Transfer in of net defined benefit pension asset	16	15	—	—	—
Related tax		30	(18)	(19)	(26)
		(147)	86	95	139
Add (deduct) amount attributable to UK with-profits fund transferred to unallocated surplus of with-profits fund, net of related tax		149	(21)	(38)	(79)
Other comprehensive income/(loss) for the period, net of related tax		3	59	57	66
Total comprehensive income for the period attributable to equity holders		797	126	863	1,140
					1,050

Combined statement of financial position

		As at 30 June	As at 31 December		
	Note	2019 £m	2018 £m	2017 £m	2016 £m
Assets					
Goodwill and intangible assets	11	1,422	1,446	1,321	1,398
Deferred acquisition costs	12	107	105	90	89
Investment in joint ventures and associates	13	605	742	504	448
Property, plant and equipment	14	1,383	1,265	404	271
Investment property	15	18,778	18,003	16,607	14,740
Defined benefit pension asset	16	51	162	165	111
Deferred tax assets	9	110	118	146	170
Reinsurance assets	21	2,690	2,812	2,521	2,589
Loans	17	5,997	5,909	6,445	4,058
Derivative assets	18	2,883	2,513	2,954	2,927
Equity securities and pooled investment funds	18	67,484	60,793	68,487	59,729
Deposits	18	16,792	12,020	10,050	10,790
Debt securities	18	85,174	85,956	92,707	90,795
Current tax assets	9	271	236	237	307
Accrued investment income and other debtors	19	3,149	4,106	3,510	4,096
Assets held for sale	2	10,170	10,578	37	726
Cash and cash equivalents	20	4,624	4,739	5,799	5,056
Total assets		221,690	211,503	211,984	198,300
Invested capital		8,498	8,799	8,355	7,891
Total invested capital		8,498	8,799	8,355	7,891
Liabilities					
Insurance contract liabilities	21	76,398	69,298	88,623	89,464
Investment contract liabilities with discretionary participation features	21	67,360	67,038	62,340	52,490
Investment contract liabilities without discretionary participation features	21	15,695	15,560	17,069	16,171
Unallocated surplus of with-profits fund	21	15,810	13,433	13,567	11,738
Third party interest in consolidated funds	18	9,040	9,383	5,638	6,034
Borrowings and subordinated liabilities	22	3,712	4,055	3,877	1,507
Defined benefit pension liability	16	120	173	179	287
Lease liabilities	23	323	316	—	—
Deferred tax liabilities	9	1,187	1,061	1,703	1,591
Current tax liabilities	9	427	245	299	546
Derivative liabilities	18	2,677	2,208	1,661	1,861
Other financial liabilities	18	2,723	2,592	3,255	3,269
Provisions	24	416	512	546	345
Accruals, deferred income and other liabilities	25	7,140	6,262	4,872	4,571
Liabilities held for sale	2	10,164	10,568	—	535
Total liabilities		213,192	202,704	203,629	190,409
Total invested capital and liabilities		221,690	211,503	211,984	198,300

Combined statement of changes in invested capital

	Note	As at 30 June	As at 31 December		
		2019 £m	2018 £m	2017 £m	2016 £m
Invested capital at start of period		8,799	8,355	7,891	7,430
Profit for the period		794	806	1,074	1,134
Other comprehensive income for the period		3	57	66	(84)
Total comprehensive income for the period		797	863	1,140	1,050
Dividends	10	(1,108)	(526)	(679)	(590)
Reserve movements in respect of share-based payments		8	2	3	2
Other movements (i)		2	105	—	(1)
Net (decrease)/increase in invested capital		(301)	444	464	461
Invested capital at end of period		8,498	8,799	8,355	7,891

(i) Other movements in 2018 include a capital contribution of £88m from Prudential plc to M&G.

Combined statement of cash flows

	Note	For the six months ended 30 June	For the year ended 31 December		
		Unaudited			
		2019 £m	2018 £m	2018 £m	2017 £m
Cash flows from operating activities:					
Profit before tax		1,427	72	591	1,756
Non-cash movements in operating assets and liabilities included in profit before tax:					
Investments		(11,423)	10,486	12,384	(14,537)
Other non-investment and non-cash assets		689	(473)	(1,088)	517
Policyholder liabilities (including unallocated surplus)		9,885	(12,922)	(16,255)	11,676
Other liabilities (including operational borrowings)		177	1,158	5,023	1,313
Interest income, interest expense and dividend income		(2,715)	(2,676)	(4,754)	(5,516)
Other non-cash items		55	242	(356)	(107)
Operating cash items:					
Interest receipts and payments		1,311	1,434	2,922	3,657
Dividend receipts		1,269	1,136	1,804	1,954
Tax paid (i)		(261)	(168)	(268)	(464)
Net cash flows from operating activities (ii)		414	(1,711)	3	249
Cash flows from investing activities:					
Purchases of property, plant and equipment	14	(171)	(108)	(189)	(55)
Proceeds from disposal of property, plant and equipment		—	—	4	—
Acquisition of subsidiaries and intangibles		(1)	(116)	(173)	(115)
Sale of businesses		—	—	—	1,193
Net cash flows from investing activities		(172)	(224)	(358)	1,023
Cash flows from financing activities:					
Interest paid (iii)		—	(4)	(4)	(9)
Redemption of subordinated liabilities		—	(100)	(100)	—
Capital contribution		—	88	88	—
Cash remittances to Prudential plc (iv)		(356)	(429)	(742)	(649)
Net cash flows from financing activities		(356)	(445)	(758)	(658)
Net (decrease)/increase in cash and cash equivalents		(114)	(2,380)	(1,113)	614
Cash and cash equivalents at beginning of period	20	4,739	5,799	5,799	5,056
Effect of exchange rate changes on cash and cash equivalents		(1)	(8)	53	129
Cash and cash equivalents at end of period	20	4,624	3,411	4,739	5,799

(i) Tax paid for the six months ended 30 June 2019 includes £25m (30 June 2018: £121m; for the year ended 31 December 2018: £134m; 2017: £298m; 2016: £233m) paid on profits taxable at policyholder rather than shareholder rates.

(ii) Cash flows in respect of other borrowings of with-profits fund, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

(iii) Interest paid on structural borrowings of with-profits operations relate solely to the £100m 8.5% undated subordinated guaranteed bonds, which contribute to the solvency base of the Scottish Amicable Insurance Fund ("**SAIF**"), a ring-fenced sub-fund of The Prudential Assurance Company Limited ("**PAC**") With-Profits Sub-Fund ("**WPSF**"). These bonds were redeemed in full on 30 June 2018.

(iv) Cash remittances to Prudential plc include dividends of £356m for the six months ended 30 June 2019 (30 June 2018: £429m, for the year ended 31 December 2018: £526m, 2017: £649m, 2016: £590m). Details of non-cash dividends are disclosed in Note 10.

1. Basis of preparation and significant accounting policies

1.1 General information

M&G plc (the “**Company**”) is a public limited company incorporated and domiciled in England and Wales. The address of the registered office is 10 Fenchurch Avenue, London, United Kingdom, EC3M 5AG.

All financial information in the Historical Financial Information (“**HFI**”) is stated in respect of the Company and its subsidiaries from time to time, excluding Prudential Hong Kong Limited, Prudential General Insurance Hong Kong Limited and Prudential Vietnam Finance Company Limited (the “**Excluded Subsidiaries**”) (collectively, the “**Group**”) for the entirety of the years ended 31 December 2016, 2017 and 2018 and half years ended 30 June 2018 and 2019 (the “**Track Record Period**”). The Group manages the long-term savings of millions of people in the UK and across Europe, with customers that include individual savers and investors, life insurance policyholders, members of pension schemes, wholesale and institutional investors. The HFI has been prepared for the Group as at the date of this Prospectus, which excludes Prudential Hong Kong Limited and Prudential General Insurance Hong Kong Limited (which were transferred by The Prudential Assurance Company Limited (“**PAC**”) to Prudential Corporation Asia Limited (a direct subsidiary of Prudential plc) in December 2018), as well as Prudential Vietnam Finance Company Limited (which was disposed of in 2019). For further information on the basis of preparation of the HFI, see section 1.2 of this Note below.

On 14 March 2018, Prudential plc announced its intention to demerge its UK & Europe business, resulting in two separately-listed companies with different investment characteristics and opportunities. On completion of the demerger (the “**Demerger**”), the Company became the parent company of the demerged UK & Europe business. The Demerger was completed immediately prior to admission of the Company’s shares to the premium listing segment of the Official List and to trading on the London Stock Exchange’s main market for listed securities (“**Admission**”) on 21 October 2019.

1.2 Basis of preparation

(A) Background

The HFI has been prepared and approved by the Directors of the Company in accordance with the requirements of the Prospectus Directive Regulation, the Listing Rules and this basis of preparation. This basis of preparation describes the extent to which the HFI has been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations (together “**IFRS**”) as adopted by the European Union (the “**EU**”), the Companies Act 2006 and any departures from IFRS. The HFI contains information for the Track Record Period.

IFRS does not provide for the preparation of combined financial information, or the specific accounting treatment set out below, and, accordingly, in preparing the HFI, certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 “Standards for Investment Reporting applicable to public reporting engagements on historical financial information” issued by the UK Auditing Practices Board have been applied. Sections 1.2(C) - (F) of this Note below summarise the departures from IFRS which have been applied in preparing the HFI. Section 1.3(A) of this Note below provides details of how IFRS standards and interpretations effective during the Track Record Period have been applied throughout the Track Record Period.

As a result of the departures taken from IFRS, the HFI is not fully IFRS compliant and does not constitute an IFRS 1 compliant set of financial statements and therefore the HFI will differ to the Group's first set of financial statements. Pursuant to Section 435 of the Companies Act 2006, this HFI does not constitute the Company's statutory accounts. The principal accounting policies applied in the preparation of this HFI are set out in section 1.5 of this Note below. These policies have been consistently applied to all periods presented, unless otherwise stated.

The HFI is prepared on a historical cost basis except for investment property measured at fair value, certain financial assets and financial liabilities (including derivative instruments) that are measured at fair value through profit and loss ("**FVTPL**") and defined benefit assets and liabilities, measured at the fair value of plan assets less the present value of the defined benefit obligations. Assets and disposal groups held for sale are stated at the lower of the previous carrying amount and fair value less costs to sell.

The HFI has been prepared on a going concern basis. The business's forecasts and projections, taking account of possible changes in trading performance, and including stress testing and scenario analysis, show that the business will be able to operate at adequate levels of both liquidity and capital for the foreseeable future.

The HFI presented has been prepared for the Group, which comprises the Company and its subsidiaries from time to time, excluding the Excluded Subsidiaries. On 2 July 2018, Voyager Dallas Holding Company Limited, as the Company was known at the time, was incorporated as a subsidiary of Prudential plc. On 3 July 2018, the Company changed its name to M&G Prudential Limited. On 23 November 2018, the Company issued share capital as consideration to Prudential plc for the acquisition of PAC, M&G Group Limited, Prudential Financial Services Limited and Prudential Property Services Limited. Prior to this acquisition, the Group's business did not comprise a separate legal entity or a separate group of entities. On 24 July 2019, the Company was re-registered as a public limited company and changed its name to M&G Prudential plc. On 16 September 2019, the Company changed its name to M&G plc. On 21 October 2019, the Company's shares were admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's Main Market.

The HFI is presented in Pounds Sterling, which is the currency of the primary economic environment in which the Company and its subsidiaries operate and is rounded to the nearest million (£m).

(B) Perimeter

The HFI for the Track Record Period has been prepared for the Group, which comprises the Company and its subsidiaries, excluding the Excluded Subsidiaries. The option to exclude these subsidiaries is in line with the accounting conventions of SIR 2000 for the preparation of historical financial information for the purposes of inclusion in an investment circular, as their inclusion does not provide additional relevant information on the track record of the Group as it was comprised at the point of the Demerger.

(C) Basis of combination

The HFI, which has been prepared specifically for the purpose of this Prospectus, is prepared on a basis that combines the IFRS results, assets and liabilities of the entities within the Group by applying the principles underlying the consolidation procedures of IFRS 10 *Consolidated Financial Statements* and making the adjustments set out in this basis of preparation for each of the Track Record Periods. On such basis, the HFI sets out the combined and carve-out balance sheet as at each Track Record Period end date.

As the Group has not comprised a separate legal group throughout the Track Record Period, it is not meaningful to show share capital or an analysis of reserves for the Group. As such, the net assets of the Group are represented by the cumulative investment of Prudential plc in the Group. This is presented in the statement of financial position as invested capital.

Prudential plc's long-term debt has not been attributed to the Group across the Track Record Period because the borrowings are not the legal obligations of the Group during these periods. Borrowings and other amounts payable to entities under common control but outside the perimeter of the Group are liabilities of the Group and do not form part of invested capital.

(D) Taxation

Income and expenses included in this HFI have been included in the relevant corporate entity's individual tax returns as filed with the relevant local tax authority and aggregated herein.

Current tax receivable/payable and deferred tax assets and liabilities were determined based on the analysis of the Group's combined current tax position and temporary differences at each period-end and assessment of how these relate directly or indirectly to the Group.

(E) Earnings per share

As the HFI has been prepared on a combined basis, net assets are represented as invested capital. This does not represent the legal capital structure that will be in place following Admission, and therefore earnings per share disclosures have not been provided in the HFI.

(F) Share based payments

Employees within the Group participated in share based payment schemes of Prudential plc Group during the Track Record Period. Post Demerger the Group continues to incentivise employees through share based payment schemes. For the purposes of this HFI, the IFRS 2 expense in respect of share based payments schemes included in staff costs was £8.8m for the six months ended 30 June 2019 (30 June 2018: £8m; year ended 31 December 2018: £12m; 2017: £5.5m; 2016: £8.5m). Share based payment costs recognised directly in equity represent amounts settled via a capital contribution from Prudential plc. No additional share based payment disclosures have been provided in this HFI on the basis of materiality.

1.3 New accounting pronouncements

(A) New accounting pronouncements adopted in the period

(i) IFRS 16 *Leases*

Date of initial application

In accordance with the requirements of the SIR 2000, IFRS 16 has been adopted in a way that will be consistent with the Group's next published annual consolidated financial statements.

On 1 January 2019, the Group adopted IFRS 16. The new standard introduces a single model for all leases, eliminating the distinction in accounting treatment between operating and finance leases for lessees.

The Group's first published set of financial statements will be prepared in accordance with IFRS 1: First time adoption ("IFRS 1"). Based on the requirements of IFRS 1, the date of adoption for IFRS 16 will be 1 January 2018, which is the beginning of the earliest period presented in those financial statements. Accordingly, to maintain consistency between the HFI and the first annual report, IFRS 16 has been adopted as at 1 January 2018 for the purposes of the HFI. If the HFI was fully IFRS compliant, IFRS 16 would have had a different date of initial application and would have applied different transition arrangements from those set out below.

Change in accounting policy

The adoption of IFRS 16 resulted in the following changes in accounting policies:

IFRS 16 applies primarily to leases of major properties occupied by the Group's businesses where the Group acts as a lessee. Under IFRS 16, these leases have been brought onto the Group's statement of financial position with a 'right of use' asset being established and a corresponding liability, representing the obligation to make lease payments. The previously recognised rental accrual charge in the income statement has been replaced with a depreciation charge for the 'right of use' asset and an interest expense on the lease liability leading to a more front-loaded operating lease cost profile, compared to former requirements under IAS 17.

At transition, as permitted by IFRS 1, lease liabilities were measured at the present value of remaining lease payments, discounted at the Group's incremental borrowing rate. Right of use assets ("ROU") are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments related to that lease at the date of transition.

The Group has used the following additional practical expedients as permitted by IFRS 1 on transition to IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- excluded initial direct costs from measurement of ROU asset on initial application; and
- used hindsight when determining the lease term if the contract had an option to break the lease.

Adoption of IFRS 16 has not resulted in any changes to accounting where the Group is acting as lessor.

Impact on HFI

On transition to IFRS 16, the Group recognised an additional lease liability of £40m and a corresponding right of use asset of £39m.

When measuring the lease liabilities, the Group discounted lease payments using the incremental borrowing rate as at 1 January 2018 which ranged between 0.99% and 3.57%.

	2018 £m
Undiscounted operating lease commitment as at 1 January 2018	44
Effect of discounting using incremental borrowing rate	(4)
Lease liability as at 1 January 2018	40
IFRS 16 lease liabilities recognised as at 1 January 2018	40

(ii) IFRS 15 *Revenue from contracts with customers*

The Group has adopted IFRS 15 from 1 January 2018. This standard introduces a new five-step model for recognition and measurement of revenue from contracts with customers and replaces the existing guidance under IAS 18, 'Revenue'.

The Group's recognition of revenue from asset management contracts and investment contracts that do not contain discretionary participating features is in scope of IFRS 15.

The contracts excluded from the scope of this standard include:

- lease contracts within the scope of IAS 17 *Leases*;
- insurance contracts and investment contracts with discretionary participation features within the scope of IFRS 4 *Insurance Contracts*; and
- financial instruments within the scope of IAS 39 *Financial Instruments*.

The Group has adopted the standard using the full retrospective method for all periods presented.

The only impact on the revenue recognised by the combined entities for prior periods presented is a reclassification in the combined income statement to present certain expenses (such as rebates to clients of asset management fees) as a deduction against revenue. This has resulted in a reduction in revenue of £234m for the year ended 31 December 2018 (31 December 2017: £172m; 31 December 2016: £124m), and £82m for the six months ended 30 June 2018 with a corresponding deduction in expenses.

(B) Other interpretations and amendments

In addition to the above, various new accounting pronouncements became effective from 1 January 2016 and during the Track Record Period, however, none of these pronouncements had a material impact on the Group's financial statements.

(C) New accounting pronouncements not yet effective

The following standards, interpretations and amendments have been issued but are not yet effective for the Group, including those which have not yet been endorsed in the EU. This is not intended to be a complete list as only those standards, interpretations and amendments that could have an impact upon the Group's financial statements are discussed.

(i) IFRS 9 *Financial instruments* (endorsed by the EU)

In July 2014, the International Accounting Standards Board ("**IASB**") published IFRS 9 *Financial Instruments* which is mandatorily effective for annual periods beginning on or after 1 January 2018, with early application permitted.

IFRS 9 replaces the existing standard, IAS 39 *Financial Instruments - Recognition and Measurement*. The standard provides new principles for determining classification and measurement of financial instruments, introduces a new forward-looking impairment model based on expected losses (replacing the existing incurred loss model) and provides new guidance on application of hedge accounting.

In September 2016, the IASB published amendments to IFRS 4, 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' to address the temporary consequences of the different effective dates of IFRS 9 and IFRS 17 *Insurance Contracts*. The amendments include an optional temporary exemption from applying IFRS 9 and the associated amendments until IFRS 17 comes into effect in 2021. This temporary exemption is available to companies whose predominant activity is to issue insurance contracts based on meeting the eligibility criteria as at 31 December 2015 as set out in the amendments. In April 2019, the IASB decided that the effective date of IFRS 17 should be delayed by one year from periods beginning on or after 1 January 2021 to 1 January 2022. The IASB also decided in this meeting that IFRS 9 could be delayed for insurers by an additional year to keep the effective date of IFRS 9 and IFRS 17 aligned.

As the Group met the required eligibility criteria for temporary exemption, the adoption of IFRS 9 has been deferred until 1 January 2022 to coincide with the adoption of IFRS 17.

Entities within the Group whose activities are not primarily insurance related and which prepare financial statements on an IFRS basis (including the UK Financial Reporting Standard 101 Reduced Disclosure Framework) have adopted IFRS 9 in 2018 in their individual financial statements. In addition, Prudential Pensions Limited, a UK insurance subsidiary has adopted IFRS 9 in its individual financial statements as it did not meet the eligibility criteria for temporary exemption. Prudential Pensions Limited writes mostly unit-linked products that are classified as investment contracts without discretionary participation feature. The results for these entities continue to be accounted for on an IAS 39 basis in the HFI.

The Group is assessing the impact of IFRS 9 and implementing this standard in conjunction with IFRS 17. The adoption of IFRS 9 may result in the reclassification of certain of the Group's financial assets, resulting in a change in measurement basis from amortised cost to fair value. Furthermore, a revised impairment approach based on expected credit losses will need to be developed for financial assets that will continue to be carried at amortised cost. The Group is currently assessing the scope of assets to which these requirements will apply.

The Group does not currently apply hedge accounting.

Presented below are disclosures required by the amendments to IFRS 4 for entities deferring the adoption of IFRS 9. These are provided to enable users to compare results with those entities that have adopted IFRS 9.

As required by the amendment, the table shows the fair value of the Group's directly held financial assets at 30 June 2019, distinguishing those financial assets which have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest ("**SPPI**") as defined by IFRS 9.

Financial assets on the Group's statement of financial position	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
	Fair value as at 30 June 2019	Movement in fair value during the year	Fair value as at 30 June 2019	Movement in fair value during the year
	£m	£m	£m	£m
Accrued investment income & other debtors	3,149	—	—	—
Loans	2,610	28	3,479	167
Equity securities and portfolio holdings in unit trusts	—	—	67,484	6,047
Debt securities	—	—	85,174	4,115
Derivative assets - net of derivative liabilities	—	—	206	17
Deposits	16,792	—	—	—
Cash and cash equivalents	4,624	—	—	—
Total financial assets, net of derivative liabilities	27,175	28	156,343	10,346

(ii) IFRS 17 *Insurance Contracts* (not yet endorsed by the EU)

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* to replace the existing interim standard, IFRS 4 *Insurance Contracts*. The standard applies to annual periods beginning on or after 1 January 2022. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group intends to adopt the new standard on its mandatory effective date in 2022, alongside the adoption of IFRS 9.

IFRS 4 permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. IFRS 17 replaces this with a new measurement model for all insurance contracts.

IFRS 17 requires liabilities for insurance contracts to be recognised as the present value of future cash flows, incorporating an explicit risk adjustment, which is updated at each reporting date to reflect current conditions, and a contractual service margin (“CSM”) that is equal and opposite to any day-one gain arising on initial recognition. Losses are recognised directly into the income statement. For measurement purposes, contracts are grouped together into contracts of similar risk, profitability profile and issue year, with further divisions for contracts that are managed separately.

Profit for insurance contracts under IFRS 17 is represented by the recognition of the services provided to policyholders in the period (release of the CSM), release from non-economic risk (release of risk adjustment) and investment profit.

The CSM is released as profit over the coverage period of the insurance contract, reflecting the delivery of services to the policyholder. For certain contracts with participating features (where a substantial share of the fair value of the related investments and other underlying items is paid to policyholders) such as the Group's with-profits products and certain unit-linked products, the CSM reflects the variable fee to shareholders. For these contracts, the CSM is adjusted to reflect the changes in economic experience and assumptions. For all other contracts the CSM is only adjusted for non-economic assumptions.

IFRS 17 introduces a new measure of insurance revenue, based on the delivery of services to policyholders and excluding any premiums related to the investment elements of policies, which will be significantly different from existing premium revenue measures currently reported in the income

statement. In order to transition to IFRS 17 the amount of deferred profit, being the CSM at transition date, needs to be determined.

IFRS 17 requires this CSM to be calculated as if the standard had applied retrospectively. However if this is not practical an entity is required to choose either a simplified retrospective approach or to determine the CSM by reference to the fair value of the liabilities at the transition date. The approach for determining the CSM will have a significant impact on both shareholders' equity and on the amount of profits on in-force business in future reporting periods.

The Group has commenced a project to implement IFRS 17 which will develop technical interpretations and the related operational capabilities to implement the standard by the prescribed adoption date. The impact from adoption of the standard cannot be assessed at this stage.

(iii) Other

In addition to the above, the following new accounting pronouncements have also been issued and are not yet effective, but the Group is not expecting them to have a significant impact on the Group's financial statements:

- Definition of a business (Amendments to IFRS 3), issued in October 2018 and effective from 1 January 2020;
- Definition of material (Amendments to IAS 1 and IAS 8), issued in October 2018 and effective from 1 January 2020; and
- Revised Conceptual Framework for Financial Reporting, issued in March 2018 and effective from 1 January 2020.

1.4 Judgements in applying accounting policies and sources of estimation uncertainty

(A) Judgements made in applying accounting policies

A full list of the Group's significant accounting policies is provided in section 1.5 of this Note below. The following table sets out the key judgements made by the Group in applying its accounting policies:

Financial statement area	Key judgement	Accounting policy
Consolidation of structured entities	IFRS 10 requires entities that the Group controls to be consolidated in the Group financial statements. Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Due to the nature of structured entities, judgement is required to determine whether the Group controls and therefore consolidates structured entities.	1.5(A)
Classification of insurance and investment contracts	IFRS 4 requires contracts that transfer significant insurance risk to be accounted for as insurance contracts. Judgement is required to determine whether contracts written by the Group transfer significant insurance risk.	1.5(B)

(B) Sources of estimation uncertainty

The preparation of these financial statements requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. The following table sets out the assets and liabilities measured using assumptions and estimates which have a significant risk of resulting in a material adjustment to their carrying value within the next financial year. Details of the nature of the estimate is provided in the related accounting policy and details of the assumptions applied at the statement of financial position date are provided in the related Note.

Financial statement asset or liability	Key estimate and assumptions	Accounting policy	Note
Insurance contract liabilities	When measuring insurance contract liabilities, a number of assumptions are applied to estimate future amounts due to the policyholder. The area where the assumptions could have a material impact are the assumed rates of policyholder mortality and the valuation rate of interest used when establishing policyholder contract liabilities for annuities.	1.5(B)	21
Equity securities and pooled investment funds, Investment property	Determination of fair value of financial assets classified as level 3 in the fair value hierarchy are determined based on inputs which are not observable in the market requiring a high degree of estimation which could result in a significant change.	1.5(D), 1.5(N)	18
Defined benefit pension scheme liability	The valuation of defined benefit pension scheme liability is calculated using actuarial valuations which incorporate a number of assumptions including discount rates, inflation rates, and expected future mortality. Due to the long term nature of the schemes, the value of the pension scheme obligation is sensitive to these assumptions.	1.5(O)	16

1.5 Accounting policies

(A) Basis of combination

Entities within the Group have been included in this HFI on a combined basis as detailed in Note 1.2.1. Within the Group investees which are deemed to be controlled are consolidated. The Group has control over an investee if all three of the following are met: (i) it has power over an investee; (ii) it is exposed to, or has rights to, variable returns from its involvement with the investee; and (iii) it has the ability to use its power over the investee to affect its own returns.

(i) Subsidiaries

Subsidiaries are those investees that the Group controls. Where the Group is deemed to control an entity (excluding the Excluded Subsidiaries), it is treated as a subsidiary and its results, assets and liabilities are consolidated. Where the Group holds a minority share in an entity but does not have control over the entity and it is not classified as a joint venture or associate accounted for using the equity method, the investments are carried at FVTPL within financial investments in the combined statement of financial position.

The Group performs a re-assessment of consolidation whenever there is a change in the substance of the relationship between the Group and an investee.

(ii) Joint ventures and associates

Joint ventures are joint arrangements arising from a contractual agreement whereby the Group and other investors have joint control of the net assets of the arrangement. In these arrangements, the Group's share of the underlying net assets may be lower or higher than 50% but the terms of the relevant agreement make it clear that control is jointly exercised between the Group and the third party.

Associates are entities over which the Group has significant influence, but it does not control. Generally, it is presumed that the Group has significant influence if it holds between 20% and 50% of the voting rights of the entity.

Investments in associates and joint ventures held by the Group's insurance or investment funds, including venture capital business, mutual funds and unit trusts are accounted for at FVTPL. All other investments in joint ventures and associates are accounted for using the equity method of accounting. Under the equity method, the Group's share of profit or loss of its joint ventures and associates is recognised in the income statement and its share of movements in other comprehensive income is recognised in other comprehensive income.

(iii) Structured entities

Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Voting rights relate to administrative tasks. Relevant activities are directed by means of contractual arrangements. The Group invests in structured entities such as:

- collective investment vehicles including open-ended investment companies ("**OEICs**") and Luxembourg domiciled Sociétés d'Investissement à Capital Variable ("**SICAVs**");
- limited partnerships;
- collateralised debt obligations;
- mortgage-backed securities; and
- similar asset-backed securities.

(iv) Collective investment vehicles

The Group invests in collective investment vehicles, which invest mainly in equities, bonds, cash and cash equivalents, and properties.

When assessing control over collective investment vehicles, the Group determines whether it is acting as principal or agent. This includes an assessment of the scope of its decision-making authority, including its ability to direct the relevant activities of these vehicles and exposure to variability of returns from the perspective of the Group's direct interest in the vehicle and of the asset manager (if it is a Group company). In addition, the Group assesses rights held by other parties including substantive removal rights that may affect the Group's ability to direct the relevant activities and indicate that the Group does not have power.

Holdings in such investments can fluctuate on a daily basis according to the participation of the Group and other investors in them. As a result, in determining control, the Group looks at the trend of ownership over a longer period (rather than at a point in time) to mitigate the impact of daily fluctuations which do not reflect the wider facts and circumstances of the Group's involvement. This is performed in line with the following principles:

- Where the Group manages the assets of the entity, and the Group's ownership holding in the entity exceeds 50%, the Group is judged to have control over the entity.
- Where the Group manages the assets of the entity, and the Group's ownership holding in the entity is between 20% and 50%, the facts and circumstances of the Group's involvement in the entity are considered, including the rights to any fees earned by the asset manager from the entity, in forming a judgement as to whether the Group has control over the entity taking into account aggregate economic interest where relevant.
- Where the Group manages the assets of the entity, and the Group's ownership holding in the entity is less than 20%, the Group is judged to not have control over the entity.
- Where the assets of the entity are managed externally, an assessment is made of whether the Group has existing rights that give it the ability to direct the current activities of the entity and therefore control the entity. In assessing the Group's ability to direct an entity, the Group considers its ability relative to other investors. The Group has a limited number of collective investment vehicles where it considers it has such ability.

Where the Group is deemed to control these entities, they are treated as subsidiaries and are consolidated, with the interests of investors other than entities within the Group being classified as liabilities, presented as third party interest in consolidated funds.

Where the Group does not control these entities (as it is deemed to be acting as an agent) and they do not meet the definition of associates, they are carried at FVTPL within equity securities and pooled investments funds in the combined statement of financial position.

Where the Group initially sets up collective investment vehicles as part of its operations through its investment management business, the Group's interest is limited to the administration fees charged to manage the assets of such entities. With no participation in these entities, the Group does not retain risks associated with collective investment vehicles. For these collective investment vehicles, the Group is not deemed to control the entities, but to be acting as an agent.

(v) Limited partnerships

The Group's insurance operations invest in a number of limited partnerships, either directly or through unit trusts, through a mix of capital and loans. These limited partnerships are managed by general partners, in which the Group holds equity. Such interest in general partners and limited partnerships provide the Group with voting and similar rights to participate in the governance framework of the relevant activities, in which limited partnerships are engaged in. Accounting for the limited partnerships as subsidiaries, joint ventures, associates or other financial investments depends on the terms of each partnership agreement and the shareholdings in the general partners.

(vi) Other structured entities

The Group holds investments in mortgage-backed securities, collateralised debt obligations and similar asset-backed securities the majority of which are actively traded in a liquid market.

The Group consolidates the vehicles that hold the investments where the Group is deemed to control the vehicles. When assessing control over the vehicles, the factors considered include the purpose and design of the vehicle, the Group's exposure to the variability of returns and the scope of the Group's ability to direct the relevant activities of the vehicle, including any kick-out or removal rights that are held by third parties. The outcome of the control assessment is dependent on the terms and conditions of the respective individual arrangements taking into account aggregate economic interest where relevant.

(vii) Third party interests

Interests of parties other than the Group in entities which the Group controls are assessed to determine whether they should be classified as financial liabilities or as non-controlling interests in equity on the statement of financial position. Puttable third party interests such as units held by external investors in unit trusts are classified as financial liabilities. Third party interests in private equity vehicles set up with finite lives are also classified as financial liabilities.

(B) Insurance and investment contracts

(i) Classification

Contracts written by the Group's insurance operations are classified as either insurance contracts or investment contracts. Contracts that transfer significant insurance risk to the Group are classified as insurance contracts. Judgement is applied in assessing whether the features of a contract gives rise to the transfer of significant insurance risk. This assessment is based on a readily identifiable scenario which is used to determine if there is a significant difference in the contract's cash outflows if the insured event occurs. This judgement is made at the point of contract inception and is not revisited.

Contracts that transfer financial risk to the Group but not significant insurance risk are classified as investment contracts.

Some contracts, both insurance and investment, contain discretionary participation features representing the contractual right to receive additional benefits as a supplement to guaranteed benefits that: (i) are likely to be a significant portion of the total contract benefits; (ii) have amount or timing contractually at the discretion of the insurer; and (iii) are contractually based on asset or fund performance. These contracts are classified as insurance or investment contracts with discretionary participation features.

The measurement of contracts depends on their classification. Those classified as either insurance contracts or investment contracts with discretionary participation features are accounted for as insurance contracts under IFRS 4. Investment contracts without discretionary participation features are accounted for as financial instruments under IAS 39. The classification of the Group's insurance operations' main contract types are shown below:

Type of contract	Classification
With-profits	Insurance contract / Investment contract with discretionary participation features
Unit-linked with significant insurance risk	Insurance contract
Unit-linked without significant insurance risk	Investment contract
Annuities	Insurance contract

(ii) Measurement: Insurance contracts and investment contracts with discretionary participation features

Insurance contracts and investment contracts with discretionary participation features are accounted for under IFRS 4 Insurance Contracts, which permits the continued use of previously applied Generally Accepted Accounting Practices (“GAAP”), which have been grandfathered by the Group. In particular, the Group uses a modified statutory basis, which is based on grandfathered regulatory requirements prior to the adoption of Solvency II, adjusted in accordance with the Statement of Recommended Practice issued by the Association of British Insurers. An exception is for the Group's with-profits fund, which is measured on a realistic basis in accordance with FRS 27 Life Assurance. The measurement of the liabilities arising from the main types of contracts in scope of IFRS 4 is described further below.

Valuation of the with-profits fund's liabilities

The policyholder liabilities for the Group's with-profits fund are measured under FRS 27 Life Assurance, which requires the use of the realistic value of liabilities. In aggregate, this has the effect of placing a market consistent value on the liabilities of with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the with-profits fund and current circumstances. The realistic basis requires the value of liabilities to be calculated as:

- a with-profits benefits reserve; plus
- future policy-related liabilities; plus
- the realistic current liabilities of the fund.

The with-profits benefits reserve is primarily based on the retrospective calculation of accumulated asset shares but is adjusted to reflect future policyholder benefits and other charges and expenses. Asset shares broadly reflect the policyholders' share of the with-profits fund assets attributable to their policies. As such the majority of the policyholder liability for with-profits business is driven by investment performance.

The future policy-related liabilities must include a market consistent valuation of costs of guarantees, options and smoothing, less any related charges, and this amount is determined using a stochastic approach. The shareholders' share of future costs of bonuses is included within the liabilities for unallocated surplus. The shareholders' share of profit is recognised in line with the distribution of bonuses to policyholders.

Unallocated surplus of the with-profits fund

The unallocated surplus of the with-profits fund represents the excess of assets over policyholder liabilities that have yet to be appropriated between policyholders and shareholders. The unallocated surplus is recorded wholly as a liability with no allocation to equity. The annual excess (shortfall) of income over expenditure of the with-profits fund, after declaration and attribution of the cost of bonuses

to policyholders and shareholders, is transferred to (from) the unallocated surplus each year through a charge (credit) to the income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders.

Valuation of unit-linked contracts

For unit-linked contracts classified as insurance contracts, the attaching liability reflects the unit value obligation and an additional provision in respect of expenses and mortality risk. The latter component is determined by applying mortality assumptions on a basis that is appropriate for the policyholder profile and discounted at an appropriate valuation interest rate.

Valuation of annuity contracts

The annuity liabilities are calculated as the expected value of future annuity payments and expenses, discounted by a valuation interest rate, having prudent regard to the assumptions used. The primary assumptions required are in respect of policyholder mortality, credit assumptions within the valuation interest rate, and future expense levels.

Liability adequacy test

The Group performs adequacy testing on its liabilities in respect of insurance contracts and investment contracts with discretionary participation features to ensure that the carrying amounts (net of related deferred acquisition costs) is sufficient to cover current estimates of future cash flows. Any deficiency is immediately charged to the income statement.

(iii) Investment contracts without discretionary participation features

Investment contracts without discretionary participation features, such as unit-linked savings and similar contracts are accounted for as financial instruments. This treatment reflects the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals and taken directly to the statement of financial position as movements in the financial liability. These investment contracts are classified as financial instruments and designated as FVTPL because the resulting liabilities are managed, and their performance is evaluated on a fair value basis. Where the contract includes a surrender option its carrying value is subject to a minimum carrying value equal to its surrender value.

Any incremental costs that are directly attributable relating to investment management services which vary with, and are related to, securing new contracts and renewal of existing contracts, are deferred and amortised over the period during which the service is provided on a straight line basis.

If the contracts involve up-front charges, this income is also deferred and amortised through the income statement over the period during which the service is provided on a straight line basis.

(C) Business acquisitions

Business acquisitions are accounted for by applying the acquisition method of accounting, where the assets and liabilities of the acquired company are mainly recorded at fair value on the date of acquisition. The excess of the acquisition consideration over the recorded value of the assets and liabilities of the acquired entity is recorded on the statement of financial position as goodwill.

Expenses related to acquiring new subsidiaries are charged to the income statement in the period in which they are incurred. Income and expenses of acquired entities are included in the income statement from the date of acquisition.

(D) Financial assets and liabilities

(i) Classification and measurement

The classification of financial assets and liabilities is determined at initial recognition. The Group classifies derivative financial assets and financial liabilities as held for trading. Financial assets which are managed and whose performance is evaluated on a fair value basis are designated at FVTPL. The vast majority of the Group's financial assets fall into this category as the assets are held to back policyholder liabilities. Managing assets on a fair value basis maximises returns to policyholders and avoids accounting mismatches in the income statement.

Financial assets classified as held for trading or at FVTPL and financial liabilities classified as held for trading are measured at fair value with all changes thereon being recognised in investment return in the income statement.

The Group's financial assets which are not derivatives or designated at FVTPL are classified as loans or receivables. These instruments comprise non-quoted investments that have fixed or determinable payments and include loans collateralised by mortgages, deposits, loans to policyholders and other unsecured loans and receivables. These investments are initially recognised at fair value plus transaction costs. Subsequently, these instruments are carried at amortised cost using the effective interest method.

The Group uses the trade date method to account for regular purchases and sales of financial assets. Transaction costs are expensed as incurred.

Financial liabilities other than derivatives are classified according to the substance of the contractual arrangements. The Group designates financial liabilities at FVTPL if these instruments are managed and their performance evaluated on a fair value basis. Investment contract liabilities without discretionary participation features are designated at FVTPL with changes recognised within benefits and claims in the combined income statement. The fair value liability is equal to the total value of units allocated to the policyholders, based on the bid price of the underlying assets.

Third party interest in consolidated funds which are classified as financial liabilities are designated as FVTPL to match the treatment of the underlying assets in the funds. Changes in fair value are recognised in movements in amounts attributable to external unit holders of consolidated investment funds in the combined income statement.

Financial liabilities which are not designated at FVTPL are measured at amortised cost using the effective interest method.

(ii) Determination of fair value

The Group uses current bid prices to value its investments having quoted prices. Actively traded investments without quoted prices are valued using prices provided by third parties. Financial assets measured at fair value are classified into a three-level hierarchy as described in Note 27.

If the market for a financial investment of the Group is not active, the fair value is determined by using valuation techniques. The Group establishes fair value for these financial investments by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources when available, but overall the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these financial investments. Details of the financial investments classified as 'level 3' to which valuation techniques are applied, and the sensitivity of profit before tax to a change in these items' valuation, are presented in Note 28.

(E) Earned premiums, policy fees and claims paid

Premiums for conventional with-profits policies and other protection type insurance policies are recognised as revenue when due. Premiums and annuity considerations for linked policies, unitised with-profits and other investment type policies are recognised as revenue when received or, in the case of unitised or unit-linked policies, when units are issued. These amounts exclude premium taxes and similar duties where the Group collects and settles taxes borne by the customer.

Policy fees charged on linked and unitised with-profits policies for mortality, asset management and policy administration are recognised as revenue when related services are provided.

Claims paid include maturities, annuities, surrenders and deaths. Maturity claims are recorded as charges on the policy maturity date. Annuity claims are recorded when each annuity instalment becomes due for payment. Surrenders are charged to the income statement when paid and death claims are recorded when notified.

(F) Reinsurance

The business seeks to reduce loss exposure by reinsuring certain levels of risk in various areas of exposure with other insurance companies or reinsurers. Where the reinsurance contracts transfer significant insurance risk to the reinsurer, the asset arising from the contract is classified as the reinsurer's share of insurance contract liabilities.

The measurement of reinsurance assets is consistent with the measurement of the underlying direct insurance contracts. Reinsurance premiums paid and reinsurance recoveries on claims paid are recognised when the corresponding insurance premium is received from the policyholder and when the reinsured claims are incurred, respectively. These items are disclosed separately on the face of the income statement. Any gains or losses arising on the purchase of reinsurance contracts are recognised in the income statement.

Where the reinsurance contract does not transfer significant insurance risk to the reinsurer, the contract is classified as a financial instrument and is measured at FVTPL.

(G) Fee income

Fee income is derived from investment management fees and performance fees.

Management fee revenue is based on assets under management and is recognised over time as the Group satisfies its performance obligation to provide the asset management services. Fee revenue is recognised net of rebates.

Performance fees and carried interest on investment management contracts are based on the achievement of prescribed performance hurdles. Performance fees are recognised when performance obligations are satisfied or upon any relevant crystallisation event occurring, and when it is highly probable that a significant reversal will not occur.

(H) Investment return

Investment return included in the combined income statement comprises interest income, rental income, dividends, foreign exchange gains and losses, realised and unrealised gains and losses on investments designated as FVTPL, and realised gains and losses (including impairment) on items held at amortised cost. Interest income is recognised as it accrues on an effective interest basis. Dividends on equity securities are recognised on the ex-dividend date and rental income is recognised on an accruals basis.

(I) Deferred acquisition costs

The Group incurs various incremental, directly attributable acquisition costs in obtaining new contracts. For investment contracts without discretionary participating features, these acquisition costs are capitalised and amortised in line with the related revenue. For certain insurance contracts, such acquisition costs are also capitalised and amortised in line with the emergence of projected margins. These costs (deferred acquisition costs) are recognised as an asset in the combined statement of financial position.

The recoverability of any deferred acquisition costs is reviewed at each reporting date, and to the extent that these are no longer deemed recoverable from future revenue or projected margins, then the carrying value is written down to the recoverable amount and the related impairment charge recorded in the combined income statement.

For insurance contracts written in the UK regulated with-profits fund, in accordance with FRS 27 there is no deferral of acquisition costs and these costs are expensed as incurred. Similarly, for products where all of the acquisition costs are recovered upfront, such as annuities, no acquisition costs are deferred.

(J) Derivatives and hedge accounting

The primary areas of the Group's operations where derivative instruments are held are the UK with-profits fund and annuity business. Management designates derivatives on inception and those that are not designated as hedging instruments are carried at fair value, with movements in fair value being recorded within investment return in the combined income statement.

The Group does not regularly seek to apply fair value or cash flow hedging treatment under IAS 39 and has had no fair value or cash flow hedges during the Track Record Period.

(K) Derecognition of financial assets and liabilities

The Group's policy is to derecognise financial assets when it is deemed that substantially all the risks and rewards of ownership have been transferred, the contractual rights to the cashflows have expired or the Group has not retained control of the asset. Gains and losses on disposal are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the combined income statement.

The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

(L) Securities lending and reverse repurchase agreements

The Group is party to various securities lending agreements and repurchase agreements under which securities are transferred to third parties on a short-term basis. The transferred securities are not derecognised; rather, they continue to be recognised within the appropriate investment classification. The Group's policy is that collateral in excess of 100% of the fair value of securities transferred is required from all securities' borrowers and typically consists of cash, debt securities, equity securities or letters of credit.

In cases where the Group takes possession of collateral under its securities lending programme, including cash collateral which is not legally separated from the Group, the corresponding obligation to return such collateral, is recognised as a financial liability in the combined statement of financial position.

The Group is also party to various reverse repurchase agreements under which securities are purchased from third parties with an obligation to resell the securities. The securities are not recognised as investments on the statement of financial position. The right to receive the return of any cash paid as purchase consideration plus interest is recognised as a financial asset in the combined statement of financial position.

(M) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs. Borrowings, excluding those backing buy to let mortgages which are managed on a fair value basis and designated at FVTPL, are subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds (net of related issue costs) are amortised through the income statement to the date of maturity or for hybrid debt, over the expected life of the instrument.

Borrowings backing buy to let mortgages are designated at FVTPL as they are managed on a fair value basis in line with the underlying loan assets.

(N) Investment property

Investments in leasehold and freehold properties not for occupation by the Group, including properties under development for future use as investment property, are carried at fair value, with changes in fair value included in the income statement. Properties are valued annually either by the Group's qualified surveyors or by taking into consideration the advice of professional external valuers using the Royal Institution of Chartered Surveyors ("**RICS**") valuation standards. Each property is externally valued at least once every three years.

(O) Defined benefit pension schemes

For the Group's defined benefit schemes, if the present value of the defined benefit obligation exceeds the fair value of the scheme assets, then a liability is recorded in the Group's statement of financial position. By contrast, if the fair value of the assets exceeds the present value of the defined benefit obligation then the surplus will only be recognised if the nature of the arrangements under the trust deed, and funding arrangements between the Trustee and the Company, support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is a constructive obligation for the Company to pay deficit funding, this is also recognised such that the financial position recorded for the scheme reflects the higher of any underlying IAS 19 *Employee Benefits* deficit and the obligation for deficit funding.

The Group utilises the projected unit credit method to calculate the defined benefit obligation. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Estimated future cash flows are then discounted at a high-quality corporate bond rate, adjusted to allow for the difference in duration between the bond index and the pension liabilities where appropriate, to determine its present value. These calculations are performed by independent actuaries.

The plan assets of the Group's pension schemes include several insurance contracts that have been issued by the Group. These assets are excluded from plan assets in determining the defined benefit pension asset or liability recognised on the combined statement of financial position.

The aggregate of the actuarially determined service costs of the currently employed personnel, and the net interest on the net defined benefit obligation at the start of the period, is charged to the income statement. Actuarial and other gains and losses as a result of changes in assumptions or experience variances are recognised as other comprehensive income. Contributions to the Group's defined contribution pension schemes are expensed when due.

Transfers in of pension scheme assets or liabilities to the Group are recognised in other comprehensive income.

(P) Tax

The Group is subject to tax in numerous jurisdictions and the calculation of the total tax charge inherently involves a degree of estimation and judgement. Current tax expense is charged or credited based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year and adjustments made in relation to prior years. The positions taken in tax returns where applicable tax regulation is subject to interpretation are recognised in full in the determination of the tax charge in the financial statements if the Group considers that it is probable that the taxation authority will accept those positions. Otherwise, provisions are established based on management's estimate and judgement of the likely amount of the liability, or recovery by providing for the single best estimate of the most likely outcome or the weighted average expected value where there are multiple possible outcomes.

The total tax charge includes tax expense attributable to both policyholders and shareholders. The tax expense attributable to policyholders comprises the tax on the income of the consolidated with-profits and unit-linked funds. In certain jurisdictions, such as the UK, life insurance companies are taxed on both their shareholders' profits and on their policyholders' insurance and investment returns on certain insurance and investment products. Although both types of tax are included in the total tax charge in the Group's combined income statement, they are presented separately in the combined income statement to provide the most relevant information about tax that the Group pays on its profits.

Deferred taxes are provided under the liability method for all relevant temporary differences. IAS 12 *Income Taxes* does not require all temporary differences to be provided for. In particular, the Group does not provide for deferred tax on undistributed earnings of subsidiaries where the Group is able to control the timing of the distribution and the temporary difference created is not expected to reverse in the foreseeable future. Deferred tax assets are only recognised when it is more likely than not that future taxable profits will be available against which these losses can be utilised.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period.

(Q) Goodwill

Goodwill arises when the Group acquires a business and the consideration paid exceeds the fair value of the net assets acquired. Goodwill arising on acquisitions of subsidiaries and businesses is capitalised and carried on the combined statement of financial position at initial value less any accumulated impairment losses. Goodwill impairment testing is conducted annually and when there is an indication of impairment. For the purposes of impairment testing, goodwill is allocated to cash generating units. Goodwill impairment charges are recognised immediately in the income statement.

(R) Intangible assets

Intangible assets relating to insurance contracts acquired through business combinations are measured at fair value on acquisition. Other purchased intangible assets, such as service concessions, licenses and software, are valued initially at the price paid to acquire them. Intangible assets are subsequently carried at cost less amortisation and any accumulated impairment losses.

Impairment testing is conducted when there is an indication of impairment. If an impairment has occurred, an impairment charge is recognised for the difference between the carrying value and recoverable amount of the asset. The recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is calculated as the present value of future expected cash flows from the asset or the cash generating unit to which it is allocated. Amortisation and impairment of intangible assets is charged to the combined income statement.

(S) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, debt securities and money market funds with less than 90 days maturity from the date of acquisition.

(T) Share-based payments

Throughout the Track Record Period the Group has offered share award and option plans for certain key employees and a Save As You Earn plan for all UK and certain overseas employees in relation to Prudential plc shares. The Group has both equity-settled plans and cash-settled plans.

Share options and awards of Prudential plc's equity instruments, for which there is an obligation to settle, are valued using the Prudential plc share price at the date of grant. These are accounted for as equity-settled in the Group financial statements as they are satisfied through a contribution by Prudential plc. Share options and awards for which the Group has the obligation to settle are valued using the Prudential plc share price at the statement of financial position date and are accounted for as cash-

settled. The compensation costs for all awards and options are recognised in the income statement based upon the fair value of the options granted, the vesting period and the vesting conditions.

(U) Foreign exchange

The Group's combined financial statements are presented in Pounds Sterling, the Group's presentation currency. Accordingly, the results and financial position of foreign subsidiaries are translated into the presentation currency of the Group from their functional currencies. All assets and liabilities of foreign subsidiaries are converted at year end exchange rates while all income and expenses are converted at average exchange rates where this is a reasonable approximation of the rates prevailing on transaction dates. The impact of these currency translations is recorded as a separate component in the statement of comprehensive income. On disposal of foreign operations accumulated foreign exchange movements are reclassified to the income statement.

Foreign currency monetary assets and liabilities are translated at the spot exchange rate at the reporting date. Changes resulting from exchange rates are recognised in the income statement.

Foreign currency transactions are translated into functional currencies at the spot rate prevailing on the date of transactions.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

(V) Leases

Accounting policy under IFRS 16 - Effective from 1 January 2018

The Group leases office property to conduct its business. At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. In simple terms this applies if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception the Group allocates the consideration in a contract to each lease component. However, for leases of land and buildings, in which the Group acts as lessee, the Group has elected to account for the lease and non-lease components as a single lease component.

Where the Group acts as a lessee, it recognises a 'right of use' asset and a corresponding lease liability, representing the obligation to make lease payments at the lease commencement date. The Group applies the cost model to right of use assets, except for those that meet the definition of an investment property, to which the fair value model is applied.

The asset is initially measured at cost and subsequently depreciated using the straight-line method from the commencement date to the earlier of: (i) the end of the right of use asset's useful life; and (ii) the end of the lease term.

The lease liability is initially measured at the present value of lease payments that are not yet paid at the commencement date, discounted using the Group's own incremental borrowing rate. Subsequently, the lease liability is measured at amortised cost, using the effective interest method. From time to time the lease liability may be re-measured where there is a change in future lease payments, for example, where the Group reassesses whether it will exercise a purchase, extension or termination option. Where this happens, a corresponding adjustment is made to the carrying amount of the right of use

asset or an amount is recognised in the income statement if the carrying amount of the right of use asset has been reduced to zero.

The Group presents the right of use assets that do not meet the definition of investment property in 'Property, plant and equipment' ("**PPE**") on the combined statement of financial position. The corresponding 'Lease liabilities' are presented in 'Lease liabilities' on the combined statement of financial position.

The Group has elected not to recognise right of use assets and lease liabilities for short term leases of PPE that have a lease term of 12 months or less and leases of low value assets. The Group recognises lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Where the Group acts as lessor, it classifies and accounts for its leases as operating or finance leases. Where the Group acts as an intermediate lessor, as it does with some of its property leases, it accounts for its interests in the head lease and the sub lease separately. The Group assesses the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'investment return'.

Accounting policy under IAS 17 - Effective until 31 December 2017

Where the Group acted as lessee, it classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. As finance leases, the Group measured leased assets at an amount equal to the lower of: (i) their fair value; and (ii) the present value of the minimum lease payments.

Assets forming part of other lease arrangements were classified as operating leases and, unlike finance leases, were not recognised on the combined statement of financial position. Amounts paid under operating leases, net of any lease incentives received, were expensed to profit or loss over the lease term.

(W) PPE

PPE includes owner occupied properties, right of use assets in respect of operating leases and other tangible assets, such as computer equipment, motor vehicles, leasehold improvements and fixtures and fittings.

PPE is initially measured at cost, which represents the original purchase price less any expenses incurred in bringing it to its working condition, and subsequently measured using the cost model.

Depreciation is charged to the combined income statement on a straight-line basis over its estimated useful life. Management determines useful lives and residual values for assets when they are acquired. The Group assesses the useful life, residual value and depreciation method for PPE on an annual basis and any adjustments are made where required.

An impairment review of PPE is carried out whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Management assess impairment at the lowest level for which there are separately identifiable cash flows. Where the carrying amount of an asset is greater than its estimated recoverable amount, which is the higher of the asset's fair value less costs of disposal

and value in use, it is written down immediately to its recoverable amount and an impairment loss is recognised in the combined income statement.

(X) Assets and liabilities held for sale

The Group classifies assets and liabilities as held for sale when the carrying amount is expected to be recovered through a sale transaction usually within one year and management are committed to the sale.

Assets and liabilities held for sale are shown separately on the combined statement of financial position and are measured at the lower of their carrying amount and their fair value less costs to sell. No depreciation or amortisation is charged on an asset which is classified as held for sale.

(Y) Provisions and contingent assets and liabilities

Provisions are recognised in the combined statement of financial position when the Group has a present legal or constructive obligation resulting from a past event, it is more probable than not that a loss will be made in settling obligation and the amounts can be estimated reliably.

Provisions are measured, based on management's best estimate of the expenditure required to settle the obligation at the reporting date. Provisions are discounted and represent the present value of the expected expenditure where the effect of the time value of money is material.

Contingent liabilities are possible obligations of the Group where the timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised in the combined statement of financial position. Contingent liabilities are however disclosed, unless they are considered to be remote. If a contingent liability becomes probable and the amount can be reliably measured it is no longer treated as contingent and recognised as a liability.

Contingent assets, which are possible benefits to the Group are disclosed only if it is probable that the Group will receive the benefit. If such a benefit becomes virtually certain, it is no longer considered contingent and is recognised on the combined statement of financial position as an asset.

The organizational chart shows the following structure:

- M&G plc** (Dark Green box)
 - M&G Group Limited** (Orange box)
 - M&G FA Limited** (Orange box)
 - M&G Subsidiaries (includes regulated subsidiaries)** (Light Blue box)
 - The Prudential Assurance Company Limited** (Purple box)
 - Prudential International Assurance Public Limited Company** (Purple box)
 - Prudential Lifetime Mortgages Limited** (Purple box)
 - Prudential Pensions Limited** (Purple box)
 - Other Subsidiaries** (Light Blue box)
 - Prudential Property Services Limited** (Orange box)
 - M&G Prudential (Holdings) Limited** (Orange box)
 - Prudential Portfolio Management Group Limited** (Orange box)
 - Prudential Portfolio Managers Limited** (Orange box)
 - M&G Prudential Services Limited** (Orange box)
 - Other Subsidiaries** (Light Blue box)
 - Prudential Financial Services Limited** (Orange box)
 - Prudential Financial Planning Limited** (Purple box)
 - Prudential Distribution Limited** (Purple box)
 - Other Subsidiaries** (Light Blue box)
 - Prudential Capital Holding Company Limited** (Orange box)
 - Prudential Capital plc** (Orange box)
 - Other Subsidiaries** (Light Blue box)

Key

- Regulated Subsidiaries (Purple box)

	As at 30 June 2019	As at 31 December 2018
	£m	£m
Assets		
Reinsurance asset	10,119	10,502
Other assets (including cash and cash equivalents)	45	66
Assets held for sale (i)	10,164	10,568
Liabilities		
Insurance contract liabilities	10,119	10,502
Other liabilities	45	66
Liabilities held for sale	10,164	10,568

(i) Assets held for sale in the statement of financial position as at 30 June 2019 also include £6m of investment property held for sale (31 December 2018: £10m; 31 December 2017: £37m; 31 December 2016: £29m). In addition, as at 31 December 2016, £697m of assets and £535m of liabilities held for sale were in relation to an operating business sold by the Group's consolidated infrastructure capital private equity vehicles and completed in January 2017.

(B) Acquisitions

On 13 April 2018, the Group increased its shareholding in Gigaclear plc ("**Gigaclear**") from 47% to 81%. The Group's interest is held through the Group's consolidated infrastructure capital private equity vehicles. Gigaclear is a broadband developer, developing reliable, high-speed Fibre-To-The-Premises fibre optic broadband networks in the rural communities in the UK.

At the acquisition date the consideration, net assets acquired and resulting goodwill from the acquisition of additional shares in Gigaclear were as follows:

13 April 2018	£m
Fair value of previously held investment	117
Consideration	119
Third party interest in consolidated funds	20
Fair value of net assets acquired	
Property, plant and equipment	102
Accrued investment income and other debtors	4
Cash and cash equivalents	32
Total assets	138
Borrowings and subordinated liabilities	22
Accruals, deferred income and other liabilities	7
Total liabilities	29
Goodwill	147

The interest is held entirely through the with-profits fund and therefore does not contribute directly to profit for the period.

2.2 Insurance and investment contracts written by the Group's insurance entities

A description of the main contract types written by the Group's insurance entities is provided below.

(A) With-profits contracts

With-profits contracts provide returns to policyholders through bonuses that are smoothed which reduce the impact of volatility of the investment performance of the assets in the fund.

The Group's with-profits contracts are written in the PAC with-profits fund in which policyholders share in the profit of the fund. There are 3 with-profits sub-funds: the PAC With-Profits Sub-Fund ("**WPSF**"), the Defined Charge Participating Sub-Fund ("**DCPSF**"), and SAIF.

Conventional and accumulating with-profits contracts written in WPSF and DCPSF

Conventional and accumulating with-profits policyholders receive their share of the profit by way of regular and final bonuses.

Regular bonus rates are determined for each type of policy primarily by targeting the bonus level at a prudent proportion of the long-term expected future investment return on underlying assets, reduced as appropriate for each type of policy to allow for items such as expenses, charges, tax and shareholders' transfers.

In normal investment conditions, the Group expects changes in regular bonus rates to be gradual over time. However, the Group retains the discretion whether or not to declare a regular bonus each year, and there is no limit on the amount by which regular bonus rates can change.

A final bonus which is normally declared annually, may be added when a claim is paid. The rates of final bonus usually vary by type of policy and by reference to the period, usually a year, in which the policy commences or each premium is paid. These rates are determined by reference to the asset shares of representative sample policies and are subject to smoothing.

Regular bonuses are typically declared once a year, and once credited, are guaranteed in accordance with the terms of the particular product. Final bonus rates are guaranteed only until the next bonus declaration.

Contracts are predominantly written in the WPSF, where the shareholder is entitled to an amount up to one ninth of the bonus declared, which is payable as a cash transfer from the with-profits fund.

For the business written in the DCPSF, the charges accrue to shareholders who also meet the corresponding expenses. Profits arising in the DCPSF are attributed wholly to DCPSF policyholders. The shareholders' profit arises as the difference between charges and expenses.

*With-profits contracts with a PruFund investment option ("**PruFund Contracts**")*

These are a range of with-profits contracts offering policyholders a choice of investment profiles ("**PruFund Funds**"). Unlike the with-profits contracts described above, no regular or final bonuses are declared. Instead, policyholders participate in profits by means of an increase in their investment, which grows in line with an Expected Growth Rate ("**EGR**"). The EGR is adjusted for significant market movements.

The EGR may be applied for each of the different PruFund Funds within the range, varying depending on the individual asset mix of that fund. The applicable EGR, net of the relevant charges, is applied to calculate the 'smoothed unit value' of policyholder funds. The EGRs are reviewed and updated

quarterly, with the smoothed unit value calculated daily. In normal investment conditions the EGR is expected to reflect PAC's view of how the funds will perform over the longer term.

Policyholders are protected from some of the extreme short-term ups and downs of direct investments by using an established smoothing process. Prescribed adjustments are made to the smoothed unit value if it moves outside of a specified range relative to the value of the underlying assets.

PruFund Contracts are predominantly written in the WPSF, where the shareholder is entitled to an amount up to one ninth of the difference between the smoothed unit value on withdrawal and the initial investment. The DCPSF also contains PruFund Contracts, and for these contracts the shareholder receives profits or losses arising from the difference between the charges and expenses on this business.

SAIF with-profits contracts

SAIF is a ring-fenced with-profits sub-fund. No new business is written in SAIF, although regular premiums and top-ups are still being collected on in-force policies. The fund is solely for the benefit of policyholders of SAIF. Shareholders have no entitlement to the profits of this fund. The process of determining policyholder bonuses of SAIF with-profits policies is similar to that for the with-profits policies of the WPSF. In addition, the surplus assets in SAIF are allocated to policies in an orderly and equitable distribution over time as enhancements to policyholder benefits.

The Group's main exposure to guaranteed annuity options arises through contracts in SAIF. More detail on the provisions held in respect of guaranteed annuity options is provided in Note 29.

(B) Unit-linked contracts

Unit-linked contracts are contracts where the value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is primarily borne by the policyholder. Some unit-linked contracts provide an element of insurance coverage, such as a benefit payable on death in excess of the value of the units, and these contracts are classified as insurance contracts and accounted for under IFRS 4 (see Note 21).

Charges are deducted from the unit-linked funds for investment and administration services, and for certain contracts, insurance coverage. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product, subject to surrender charges.

(C) Annuities

Annuities are contracts which offer policyholders a regular income over the policyholder's life in exchange for an upfront premium. There are various types of annuity contracts written across the Group: level, fixed increase, inflation-linked (referred to as 'non-profit annuities') and with-profits annuities. Some non-profit annuities have been written in the with-profits fund, and profits relating to this business accrue to the with-profits fund.

- Level annuities provide a regular (for example, monthly) fixed annuity payment over the policyholder's life.
- Fixed increase annuities provide for a regular annuity payment which incorporates automatic increases in annuity payments by fixed amounts over the policyholder's life.

- Inflation-linked annuities provide for a regular annuity payment to which an additional amount is added periodically based on the increase in an inflation index.
- With-profits annuities are written in the with-profits fund. These combine the income features of annuity contracts with the investment smoothing features of with-profits products and enable policyholders to obtain exposure to investment return on the with-profits fund.

3. Reportable segments

Segmental analysis

The Group's operating segments are defined and presented in accordance with IFRS 8 *Operating Segments* on the basis of the Group's management reporting structure and its financial management information. The Group's primary reporting format is by customer type, with supplementary information being given by product type. The Chief Operating Decision Maker for the Group is the Group Executive Committee.

3.1 Operating segments

The Group's operating segments are:

(A) Savings & Asset Management

The Group's savings and asset management business provides a range of retirement, savings and investment management solutions to its retail and institutional customers.

The Group's retirement and savings products are distributed to retail customers through intermediaries and through its own advisors, and include the Retirement Account (a combined individual pension and income drawdown product), individual pensions, ISAs, collective investments and a range of on-shore and off-shore bonds.

All of the Group's products that give access to the PruFund investment proposition are included in the Savings & Asset Management segment. The PruFund proposition gives retail customers access to smoothed savings contracts with a wide choice of investment profiles.

The Group's investment management capability is offered to both retail and institutional investors. The Group's retail customers invest through either UK domiciled OEICs or Luxembourg domiciled SICAVs and have access to a broad range of actively managed investment products, including Equities, Fixed Income, Multi-Asset and Real Estate. The Group serves these customers through its many business-to-business relationships both in the UK and overseas, which include independent financial advisers, high-street banks and wealth managers. The Group's institutional investors, include pension funds, insurance companies and banks from around the world, who invest through segregated mandates and pooled funds into a diverse range of Fixed Income and Real Estate investment products and services. The Savings & Asset Management segment also earns investment management revenues from the significant proportion of Heritage assets it manages.

(B) Heritage

The Group's heritage business includes individual and corporate pensions, annuities, life, savings and investment products. The majority of the products in the Heritage business are closed to new customers but may accept further contributions from existing policyholders.¹²

The annuity contracts written by the Group include level annuities, fixed increase annuities, inflation-linked annuities and with-profits annuities.

The life products in Heritage are primarily whole of life assurance, endowment assurances, term assurance contracts, lifetime mortgages, income protection, and critical illness products.

Investment products include unit-linked contracts and the Prudential bond offering, which mainly consists of single premium invested whole of life policies, where the customer has the option of taking ad-hoc withdrawals, regular income or the option of fully surrendering their bond.

Some of the Group's Heritage products were written through conventional and accumulating with-profits contracts, in the PAC With-Profits Sub-Fund, which provide returns to policyholders through 'regular' and 'final' bonuses that reflect a smoothed investment return.

The Heritage business includes the closed SAIF with-profits sub-fund. The fund is solely for the benefit of policyholders of SAIF. Shareholders have no entitlement to the profits of this fund although they are entitled to asset management fees on it. It also includes the DCPSF, which consists of two types of business: (i) the Defined Charge Participating business, primarily business reinsured from Prudential International Assurance plc; and (ii) the with-profits annuities transferred from Equitable Life Assurance Society on 31 December 2007.

(C) Corporate Centre

Information about the Group's Corporate Centre, which includes central corporate costs incurred by the Group functions and debt costs, has been disclosed separately.

3.2 Adjusted operating profit before tax

Adjusted operating profit before tax is the Group's non-GAAP alternative performance measure and is key to decision making and the internal performance management of operating segments.

For the Group's fee based business, adjusted operating profit before tax includes fees received from customers and operating costs for the business including overheads, expenses required to meet regulatory requirements and regular business development/restructuring costs. Exceptional costs associated with fundamental one-off group-wide restructuring and transformation are not included in adjusted operating profit before tax.

For the Group's business written in the with-profits fund, adjusted operating profit before tax includes the statutory transfer to shareholders gross of attributable shareholder tax. Short term temporary movements in the fair value of instruments held to mitigate equity risk in the transfer are excluded from adjusted operating profit before tax. These hedges are matched to the statutory transfer on an economic

¹² The Group accepts new members to existing Corporate Pensions schemes and writes a small number of new annuity policies with customers that have a Prudential pension.

basis rather than an IFRS basis which may result in a mismatch between the movement in the instrument and the corresponding impact on the statutory transfer. Any such mismatch will be reflected in adjusted operating profit before tax for the current year's shareholder transfer.

For the Group's shareholder annuity products written by the Heritage segment, adjusted operating profit before tax excludes impacts that are the result of credit experience variance relative to assumptions including the impact of credit risk provisioning for actual upgrades and downgrades during the period, and the impact of defaults and other similar experience such as asset exchanges arising from debt restructuring. Total fair value movements on surplus assets backing the shareholder annuity capital are also excluded from adjusted operating profit before tax.

Certain additional items are excluded from adjusted operating profit before tax where those items are considered to be non-recurring or strategic, or considered to be one-off, due to their size or nature, and therefore not indicative of the long term operating performance of the Group, including profits or losses arising on corporate transactions.

The key adjusting items between IFRS profit before tax and adjusted operating profit before tax are:

(A) Short-term fluctuations in investment returns

The adjustment for short-term fluctuations in investment returns represents:

- (i) Short-term temporary movements in the fair value of instruments held to mitigate equity risk in the with-profits shareholder transfer that do not relate to the current year.
- (ii) Total fair value movements on surplus assets backing the shareholder annuity capital, and the difference between the assumed long-term credit experience used to determine adjusted operating profit before tax for the Group's shareholder annuity products and the actual credit experience over the period, specifically:
 - The impact of credit risk provisioning for actual upgrades and downgrades during the period. This is calculated by reference to current interest rates.
 - Credit experience variance relative to assumptions, reflecting the impact of defaults and other similar experience, such as asset exchanges arising from debt restructuring.

Items relating to investment returns which are included in adjusted operating profit before tax are:

- The net impact of movements in the value of policyholder liabilities and fair value of the assets backing these liabilities. The fair value movements of the assets backing the liabilities are closely correlated with the related change in liabilities.
- The unwind of the credit risk premium, which is the opening value of the assets multiplied by the credit risk premium assumption, with an adjustment for claims paid over the period. The credit risk premium assumption is a margin to allow for credit defaults and credit downgrades being worse than our best estimate and is held in addition to the best estimate allowance for credit defaults and credit downgrades. As the liabilities run off this premium is released.
- Actual income received in the period, such as coupon payments, redemption payments and rental income, on surplus assets backing the shareholder annuity capital, less an allowance for expenses.

- The net effect of changes to the valuation rate of interest due to asset trading and portfolio rebalancing.
- Changes to credit risk provisioning not included in the short-term fluctuations above.

(B) Loss on disposal of businesses and corporate transactions

The adjusting item of £513 million for the six months ended 30 June 2018 and £508 million for the year ended 31 December 2018 resulted from the reinsurance of £12bn of annuities to Rothesay Life prior to sale, which is considered to be non-recurring in nature and is therefore excluded from IFRS adjusted operating profit before tax. No non-operating loss or benefit was incurred in the six months to 30 June 2019 or the years ended 31 December 2017 and 2016.

(C) Restructuring costs

Restructuring costs primarily reflect costs associated with the Merger and Transformation Programme and costs associated with the Demerger. These costs represent fundamental one-off group-wide restructuring and transformation and are therefore excluded from IFRS adjusted operating profit.

Included within restructuring costs in the six months ended 30 June 2019 is £52m associated with the demerger primarily relating to the renegotiation of existing commercial arrangements as a result of the demerger.

3.3 Analysis of Group adjusted operating profit before tax by segment

	For the six months ended 30 June 2019			
	Savings & Asset Management £m	Heritage £m	Corporate Centre £m	Total £m
Fee based revenues (i)	590	47	—	637
Annuity margin	—	311	—	311
With-profits shareholder transfer net of hedging gains/(losses) (ii)	29	97	—	126
Total adjusted operating income	619	455	—	1,074
Adjusted operating expenses	(378)	(25)	(21)	(424)
Other shareholder profit	13	44	—	57
Share of profit from joint ventures and associates	8	—	—	8
Total adjusted operating profit before tax	262	474	(21)	715
Short-term fluctuations in investment returns	(49)	413	—	364
Restructuring costs (iii)	(26)	(54)	(2)	(82)
IFRS profit before tax attributable to equity holders	187	833	(23)	997

(i) Fee based revenues shown above includes internal revenue and other presentational differences which are excluded in the analysis of fee income by segment in Note 5.

(ii) The with-profits shareholder transfer paid to the shareholder net of tax. The shareholder transfer amount is grossed up for tax purposes of IFRS adjusted operating profit.

(iii) Restructuring costs excluded from adjusted operating profit relate solely to merger and transformation costs.

	For the six months ended 30 June 2018 (unaudited)			
	Savings & Asset Management £m	Heritage £m	Corporate Centre £m	Total £m
Fee based revenue (i)	631	62	—	693
Annuity margin	—	392	—	392
With-profits shareholder transfer net of hedging gains/(losses) (ii)	23	91	—	114
Total adjusted operating income	654	545	—	1,199
Adjusted operating expenses	(361)	(52)	(7)	(420)
Other shareholder loss	(5)	(10)	—	(15)
Share of profit from joint ventures and associates	8	—	—	8
Total adjusted operating profit before tax	296	483	(7)	772
Short-term fluctuations in investment returns	(4)	(132)	—	(136)
Loss on disposal of businesses and corporate transactions	—	(513)	—	(513)
Restructuring costs (iii)	(31)	(10)	—	(41)
IFRS profit before tax attributable to equity holders	261	(172)	(7)	82

	For the year ended 31 December 2018			
	Savings & Asset Management £m	Heritage £m	Corporate Centre £m	Total £m
Fee based revenue (i)	1,257	96	—	1,353
Annuity margin	—	1,129	—	1,129
With-profits shareholder transfer net of hedging gains/(losses) (ii)	54	201	—	255
Total adjusted operating income	1,311	1,426	—	2,737
Adjusted operating expenses	(778)	(125)	(13)	(916)
Other shareholder loss	(81)	(139)	—	(220)
Share of profit from joint ventures and associates	16	—	—	16
Total adjusted operating profit before tax	468	1,162	(13)	1,617
Short-term fluctuations in investment returns	41	(44)	—	(3)
Loss on disposal of businesses and corporate transactions	—	(508)	—	(508)
Restructuring costs (iii)	(62)	(47)	—	(109)
IFRS profit before tax attributable to equity holders	447	563	(13)	997

For the year ended 31 December 2017				
	Savings & Asset Management £m	Heritage £m	Corporate Centre £m	Total £m
Fee based revenue (i)	1,205	106	—	1,311
Annuity margin	—	673	—	673
With-profits shareholder transfer net of hedging gains/(losses) (ii)	39	164	—	203
Total adjusted operating income	1,244	943	—	2,187
Adjusted operating expenses	(723)	(103)	(8)	(834)
Other shareholder (loss)/profit	(13)	7	—	(6)
Share of profit from joint ventures and associates	15	—	—	15
Total adjusted operating profit before tax	523	847	(8)	1,362
Short-term fluctuations in investment returns	(20)	62	—	42
Loss on disposal of businesses and corporate	—	—	—	—
Restructuring costs (iii)	(36)	(37)	—	(73)
IFRS profit before tax attributable to equity holders	467	872	(8)	1,331

For the year ended 31 December 2016				
	Savings & Asset Management £m	Heritage £m	Corporate Centre £m	Total £m
Fee based revenue (i)	1,046	118	—	1,164
Annuity margin	—	637	—	637
With-profits shareholder transfer net of hedging gains/(losses) (ii)	32	179	—	211
Total adjusted operating income	1,078	934	—	2,012
Adjusted operating expenses	(644)	(112)	(5)	(761)
Other shareholder profit/(loss)	9	(69)	—	(60)
Share of profit from joint ventures and associates	12	—	—	12
Total adjusted operating profit before tax	455	753	(5)	1,203
Short-term fluctuations in investment returns	(22)	233	—	211
Loss on disposal of businesses and corporate	—	—	—	—
Restructuring costs (iii)	(16)	—	—	(16)
IFRS profit before tax attributable to equity holders	417	986	(5)	1,398

The Group has a widely diversified customer base. There are no customers whose revenue represents greater than 10% of fee based revenue.

Each reportable segment reports adjusted operating income as its measure of revenue. Fee based revenues and other income primarily represents asset management charges, transactional charges and annual management charges on unit-linked business. The annuity margin reflects the margin earned on annuity business and includes net earned premiums, claims and benefits paid, net investment return for assets backing the liabilities, net investment income for surplus assets backing the annuity capital, actuarial reserving changes, investment management expenses and administrative expenses. The with-profits shareholder transfer reflects the statutory transfer gross of attributable tax net of hedging gains.

Adjusted operating expenses includes shareholders operating expenses incurred outside of the annuity and with-profits portfolios. Other net shareholder profit/(loss) includes non-recurring costs, movements in provisions that are an expense to the shareholder and shareholder investment return earned outside of the annuity portfolio.

Share of profit from joint ventures and associates represents the Group's share of the operating profits of Prudential Portfolio Managers South Africa (PTY) Limited, which is accounted for under the equity method.¹³

Adjusted operating income relates to revenues generated from external customers with the exception of fee based revenue in the Group's Savings & Asset Management segment, which includes investment management fees arising from intra-group transactions. On an IFRS statutory reporting basis intra-group fee based revenues totalled £81m for the six months ended 30 June 2019 (30 June 2018: £79m; for the year ended 31 December 2018: £165m; 31 December 2017: £231m; 31 December 2016: £196m). Of the £81m, £10m was incurred in respect of the shareholder annuity portfolio and is already deducted from the annuity margin (30 June 2018: £12m; for the year ended 31 December 2018: £23m; 31 December 2017: £31m; 31 December 2016: £30m), £71m was incurred by the with-profits fund (30 June 2018: £67m; for the year ended 31 December 2018: £139m; 31 December 2017: £173m; 31 December 2016: £137m), and the balance was incurred by other non-profit business and was reflected in total shareholder expenses.

3.4 Reconciliation of adjusted operating income and management expenses to total revenues and expenses as presented in the combined income statement

The following tables provide a reconciliation of adjusted operating income and adjusted operating expenses, presented in the tables above, to total revenue net of reinsurance and total charges net of reinsurance respectively, as presented in the combined income statement:

	For the six months ended 30 June			
	Unaudited			
	2019		2018	
	Income	Expense	Income	Expense
	£m	£m	£m	£m
Adjusted operating income and adjusted operating expenses	1,074	(424)	1,199	(420)
Other shareholder profit/(loss)	57	—	19	(34)
Benefits and claims and movement in unallocated surplus, net of reinsurance	16,464	(16,464)	(6,439)	6,439
Amounts attributable to third party interests in consolidated funds	428	(428)	(48)	48
Annuity and with-profits administration expenses	647	(647)	661	(661)
Tax charge attributable to policyholder returns	430	—	(10)	—
Adjusting items	364	(82)	(649)	(41)
Other	(17)	(8)	29	(41)
IFRS revenue and charges, net of reinsurance	19,447	(18,053)	(5,238)	5,290

¹³ Excludes operating profit from joint ventures in the with-profits fund.

	For the year ended 31 December					
	2018		2017		2016	
	Income	Expense	Income	Expense	Income	Expense
	£m	£m	£m	£m	£m	£m
Adjusted operating income and adjusted operating expenses	2,737	(916)	2,187	(834)	2,012	(761)
Other shareholder profit/(loss)	16	(236)	42	(48)	49	(109)
Benefits and claims and movement in unallocated surplus, net of reinsurance	(5,070)	5,070	22,985	(22,985)	27,830	(27,830)
Amounts attributable to third party interests in consolidated funds	(291)	291	715	(715)	377	(377)
Annuity and with-profits administration expenses	1,447	(1,447)	1,337	(1,337)	1,045	(1,045)
Tax charge attributable to policyholder returns	(406)	—	425	—	782	—
Adjusting items	(511)	(109)	42	(73)	211	(16)
Other	(83)	47	143	(249)	279	(301)
IFRS revenue and charges, net of reinsurance	(2,161)	2,700	27,876	(26,241)	32,585	(30,439)

Adjusted operating income and adjusted operating expenses exclude policyholder items which have an equal and opposite effect on revenue and charges in the combined income statement, such as premiums, policyholder investment returns, benefits and claims, movement in unallocated surplus of the with-profits fund and movements in third party interest in consolidated funds.

Other differences include presentation differences between reporting requirements and the determination of adjusted operating income and adjusted operating expenses, including:

- administrative expenses in the annuity and with-profits portfolio, which are netted against adjusted operating income in the analysis of Group adjusted operating profit before tax by segment;
- revenues which are required to meet the tax charge or credit attributable to policyholder returns, which are not included in the analysis of Group adjusted operating profit before tax by segment; and
- any adjusting items, which are also not included in the analysis of Group adjusted operating profit before tax by segment.

(A) Total external revenue by geographical location

The following table provides a geographical segmentation of total 'earned premiums, net of reinsurance' and 'other income' (includes fee income and other income), as presented in the combined income statement.

	For the six months ended 30 June		For the year ended 31 December		
	Unaudited				
	2019 £m	2018 £m	2018 £m	2017 £m	2016 £m
United Kingdom:					
Earned premiums, net of reinsurance	4,917	(6,437)	(999)	11,248	8,411
Other income from external customers	350	561	949	636	700
Total United Kingdom	5,267	(5,876)	(50)	11,884	9,111
Rest of the world:					
Earned premiums, net of reinsurance	503	394	923	828	874
Other income from external customers	293	326	649	599	420
Total Rest of the world	796	720	1,572	1,427	1,294
Total:					
Earned premiums, net of reinsurance	5,420	(6,043)	(76)	12,076	9,285
Other income from external customers	643	887	1,598	1,235	1,120
Total	6,063	(5,156)	1,522	13,311	10,405

The geographical analyses of revenues from long-term business are based on the territory of the operating unit assuming the risk. Other income from external customers in the asset management business is allocated based on client domicile.

(B) Total non-current, non-financial assets by geographical location

The following table provides a geographical segmentation of non-current, non-financial assets as presented in the combined statement of financial position.

	At 30 June	At 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
UK	15,505	15,429	13,374	12,726
Rest of the world	6,790	6,132	5,552	4,220
Total	22,295	21,561	18,926	16,946

Non-current, non-financial assets for this purpose consist of goodwill and intangible assets, deferred acquisition costs, property, plant and equipment, investment property, and investment in joint ventures and associates.

4. Investment return

For the six months ended 30 June		For the year ended 31 December		
Unaudited				
2019	2018	2018	2017	2016
£m	£m	£m	£m	£m

Interest income arising from:

Cash and cash equivalents	7	9	13	8	6
Deposits with credit institutions	45	20	51	19	34
Loans	84	77	158	158	163
Debt securities	1,267	1,348	2,675	3,095	3,288
	1,403	1,454	2,897	3,280	3,491

Dividend income

1,319	1,198	1,808	1,968	1,802

Income from investment property:

Rental income	507	466	927	876	781
Net fair value (losses) / gains on investment property	(246)	91	144	561	378
	261	557	1,071	1,437	1,159

Gains/(losses) on financial instruments at fair value through profit and loss arising from:

Equity securities and pooled investment funds	6,047	(706)	(5,580)	6,956	9,563
Loans	208	(20)	(102)	86	262
Debt securities	4,115	(1,795)	(2,443)	122	9,440
Derivatives	17	(777)	(1,404)	736	(3,732)
	10,387	(3,298)	(9,529)	7,900	15,533

Foreign exchange gains/(losses)

14	7	70	(20)	195

Total investment return

13,384	(82)	(3,683)	14,565	22,180

5. Fee income

The following table disaggregates management fee revenue by segment:

	For the six months ended 30 June		For the year ended 31 December		
	Unaudited				
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m
Savings & Asset Management					
Management fees	591	653	1,298	1,156	953
Rebates	(25)	(28)	(55)	(65)	(71)
Total management fees, less rebates	566	625	1,243	1,091	882
Performance fees	5	8	8	15	23
Investment contracts without discretionary participation features	17	18	34	34	33
Other fees and commissions	29	22	49	37	1
Total Savings & Asset Management fee income	617	673	1,334	1,177	939
Heritage					
Investment contracts without discretionary participation features	10	13	27	34	34
Total Heritage fee income	10	13	27	34	34
Total fee income	627	686	1,361	1,211	973

6. Administrative and other expenses

		For the six months ended 30 June		For the year ended 31 December		
		Unaudited				
	Note	2019 £m	2018 £m	2018 £m	2017 £m	2016 £m
Staff and employment costs	7	230	355	712	733	628
<i>Acquisition costs incurred:</i>						
Insurance contracts		81	87	166	201	210
Investment contracts		11	15	27	24	19
<i>Amortisation of deferred acquisition costs:</i>	12					
Insurance contracts		4	2	5	5	5
Investment contracts		2	5	10	11	13
Depreciation	14	46	27	53	35	93
Amortisation of intangible assets	11	6	5	13	12	16
Impairment of goodwill and intangible assets	11	29	—	27	—	—
Restructuring costs		97	103	256	100	44
Interest expense		92	53	101	76	93
Commission expense		133	157	321	272	205
Other expenses		430	384	966	1,063	897
Total administrative and other expenses		1,161	1,193	2,657	2,532	2,223

In addition to interest expenses above, interest expenses incurred in respect of subordinated liabilities in the six months ended 30 June 2019 were £nil (30 June 2018: £4m; for the year ended 31 December 2018: £4m; 31 December 2017: £9m; 31 December 2016: £9m) as shown in finance costs in the

combined income statement. Total finance costs incurred in the six months ended 30 June 2019 were £92m (30 June 2018: £57m; for the year ended 31 December 2018: £105m; 31 December 2017: £85m; 31 December 2016: £102m).

7. Staff and employment costs

The average number of staff employed by the Group during the year was:

	For the year ended 31 December		
	2018	2017	2016
Average staff headcount	6,447	6,823	6,246

	For the six months ended 30 June	For the year ended 31 December			
	Unaudited				
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m
Wages and salaries	285	278	520	578	505
Social security costs	33	33	63	73	59
Share based payment	9	8	12	6	9
Pension costs:					
Defined benefit schemes	(117)	17	80	41	23
Defined contribution schemes	20	19	37	35	32
Total	230	355	712	733	628

8. Fees payable to the auditor

	For the year ended 31 December		
	2018	2017	2016
	£m	£m	£m
Fees payable to the Company's auditor and its associates for other services:			
Audit of subsidiaries pursuant to legislation	4.7	4.3	4.1
Audit-related assurance services	1.1	1.0	0.9
Other assurance services	0.4	0.3	0.3
All other services	—	0.3	0.3
Total fees payable to the auditor	6.2	5.9	5.6

For the year ended 31 December 2018, fees of £0.2m (31 December 2017: £0.1m; 31 December 2016: £0.1m) were incurred in relation to the audit of the Group's defined benefit pension schemes.

9. Tax

9.1 Tax charge in the combined income statement

	For the six months ended 30 June	For the year ended 31 December			
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m

Current tax	525	88	391	614	766
Deferred tax					
Origination and reversal of temporary differences in the year	176	(91)	(636)	82	394
Total deferred tax charge/(credit)	176	(91)	(636)	82	394
Adjustments in respect of prior years	(68)	8	30	(14)	(114)
Total tax charge/(credit)	633	5	(215)	682	1,046
Tax charge/(credit) attributable to policyholders' returns	430	(10)	(406)	425	782
Tax charge attributable to equity holders' returns	203	15	191	257	264
	633	5	(215)	682	1,046

The total deferred tax charge/credit arises as follows:

	For the six months ended 30 June		For the year ended 31 December		
	Unaudited				
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m
Short-term temporary differences	18	(9)	(34)	(22)	(34)
Unrealised gains and losses on investments	160	(81)	(602)	102	433
Capital allowances	(2)	(1)	—	2	(5)
Deferred tax charge/(credit)	176	(91)	(636)	82	394

The profit before tax reflected in the combined income statement for the six months ended 30 June 2019 of £1,427m (30 June 2018: £72m; for the year ended 31 December 2018: £591m; 31 December 2017: £1,756m; 31 December 2016: £2,180m) comprises profit attributable to equity holders and pre-tax profit attributable to policyholders of unit-linked and with-profits funds and unallocated surplus of with-profits funds. This is the formal measure of profit before tax under IFRS but it is not the result attributable to equity holders. This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IAS 12. Consequently, this measure of profit before all taxes is not representative of pre-tax profits attributable to equity holders.

Profit before tax attributable to equity holders for the six months ended 30 June 2019 of £997m (30 June 2018: £82m; for the year ended 31 December 2018: £997m; 31 December 2017: £1,331m; 31 December 2016: £1,398m) is derived by removing the tax attributable to policyholders' returns for the six months ended 30 June 2019 of £430m (30 June 2018: £10m credit; for the year ended 31 December 2018: £406m credit; 31 December 2017: £425m; 31 December 2016: £782m) from IFRS measure of profit before tax.

(A) Six months ended 30 June 2019 against six months ended 30 June 2018

The increase in current tax expense from £88m for the six months ended 30 June 2018 to £525m for the six months ended 30 June 2019 principally relates to higher investment returns achieved in 2019. Similarly, the increase in deferred tax expense from a credit of £91m for the six months ended 30 June 2018 to a charge of £176m for the six months ended 30 June 2019 also principally relates to higher unrealised investment returns achieved in 2019.

The tax charge attributable to policyholders returns of £430m for the six months ended 30 June 2019 (30 June 2018: credit of £10m) reflects the increase in both current and deferred tax liabilities resulting from higher investment returns during the period.

(B) Year ended 31 December 2018 against year ended 31 December 2017

The reduction in the current tax expense from £614m for the year ended 31 December 2017 to £391m for the year ended 31 December 2018 principally relates to negative investment returns achieved in 2018 compared to the positive returns achieved in 2017.

The tax credit attributable to policyholders' returns of £406m for the year ended 31 December 2018 (31 December 2017: charge of £425m) reflects the reduction in deferred tax liabilities on unrealised gains on investments in the with-profits fund, reflecting market movements on investments.

(C) Year ended 31 December 2017 against year ended 31 December 2016

The reduction in the current tax expense from £766m for the year ended 31 December 2016 to £614m for the year ended 31 December 2017 principally relates to a fall in investment returns in 2017 compared to 2016, but in both years positive market returns were achieved.

The principal reason for the decrease in the tax charge attributable to policyholders is a smaller increase in deferred tax liabilities on unrealised gains on investments in the with-profits fund in 2017 compared to 2016, combined with a £92m credit due to the remeasurement of US net deferred tax liabilities on unrealised gains of US investments in the with-profits fund following the reduction in the US corporate tax rate to 21% from 35%, which was substantially enacted on 22 December 2017.

9.2 Reconciliation of effective tax rate

Tax charge attributable to equity holders' returns differs from the tax calculated on the profit before tax attributable to equity holders at the standard UK corporate tax rates as follows:

	For the six months ended 30 June		For the year ended 31 December		
	2019	Unaudited 2018	2018	2017	2016
	£m	£m	£m	£m	£m
Profit before tax	1,427	72	591	1,756	2,180
Tax calculated at 19% (2018: 19%, 2017: 19%, 2016: 20%)	271	14	112	334	436
Effects of recurring tax reconciliation items:					
Tax charge / (credit) attributable to policyholder	348	(8)	(329)	344	626
Income not taxable	(1)	(1)	(6)	(2)	(14)
Deductions not allowed for tax purposes	6	2	21	13	9
Items related to taxation of life insurance businesses	—	1	(2)	(2)	2
Deferred tax adjustments	(1)	—	2	(1)	2
Effect of profit of joint ventures and associates	(1)	(2)	(3)	(3)	(2)
Other	2	—	3	2	—
Non-recurring reconciling items:					
Adjustments in respect of prior years	7	(1)	(11)	(3)	(7)
Changes in local statutory tax rates	—	—	—	—	(6)
Movement in provisions for open tax matters	2	—	(2)	—	—
Total tax charge/(credit)	633	5	(215)	682	1,046

Profit before tax is not representative of pre-tax profits attributable to equity holders. This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IFRS. Profit before tax is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of with-profits fund after adjusting for taxes borne by policyholders. Taxes borne by policyholders have no impact on the effective tax rate. The analysis of effective tax rates below therefore only discusses other items in the reconciliation above.

The effect of profit of joint ventures and associates arises from the Group's share of profit from joint ventures and associates being presented after tax in the measure of profit before tax.

(A) Six months ended 30 June 2019

The effective tax rate for the period was 44.4% compared to the statutory rate of 19.0%. The rate was higher primarily due to the detrimental impacts of adjustments to prior periods recognised in the period of £7m together with expenses not allowable for tax purposes of £6m.

(B) Six months ended 30 June 2018

The effective tax rate for the period was 6.4% compared to the statutory rate of 19.0%. The rate was lower due to the relatively low profit before tax for the period rather than any significant reconciling items.

(C) Year ended 31 December 2018

The effective tax rate for the year was -36.3% compared to the statutory rate of 19.0%. The rate was marginally lower primarily due to the beneficial impact of adjustments to prior period recognised in 2018 of £11m and income not subject to tax of £6m, partially offset by the detrimental impact of expenses not allowable for tax purposes of £21m.

(D) Year ended 31 December 2017

The effective tax rate for the year was 38.8% compared to the statutory rate of 19.0%. The rate was higher primarily due to the detrimental impact of expenses not allowable for tax purposes of £13m.

(E) Year ended 31 December 2016

The effective tax rate for the year was 48% compared to the statutory rate of 20.0%. The rate was lower predominantly due to the beneficial impacts of income not subject to tax of £14m (primarily relating to non-taxable revaluation of equity release mortgages) and £7m on adjustments to prior period recognised in 2016. In addition, a one-off tax rate benefit in 2016 of £6m from the changes in local statutory tax rates. This benefit arose from the re-measurement of deferred tax balances due to the reduction in the UK corporate tax rate from 18% to 17%, which takes effect from 1 April 2020. These beneficial tax rate impacts were partially offset by the detrimental impact of expenses not allowable for tax purposes of £9m.

9.3 Deferred tax – combined statement of financial position

Deferred tax assets and liabilities have been recognised or provided for temporary differences. The recognition of deferred tax assets in respect of temporary differences is supported by management's best estimate of future taxable profits to absorb temporary differences in future years.

Deferred tax assets and liabilities presented on the combined statement of financial position have been offset to the extent it is permissible under the relevant accounting standards. The breakdown of deferred tax assets and liabilities was as follows:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Deferred tax assets				
Short-term temporary differences	96	107	135	157
Unrealised losses or gains on investments	4	—	—	1
Capital allowances	10	11	11	12
Total	110	118	146	170
Deferred tax liabilities				
Short-term temporary differences	156	183	226	235
Unrealised losses or gains on investments	991	827	1,426	1,323
Capital allowances	40	51	51	33
Total	1,187	1,061	1,703	1,591

The UK Government made substantial changes to the rules relating to the taxation of life insurance companies, effective from 1 January 2013. A deferred tax liability was recognised for the adjustment that arose on transition of the new regime. The adjustment is required to be spread and taxed over a 10 year period.

PAC is the lead litigant in a group action against HM Revenue and Customs ("**HMRC**") concerning the correct historic tax treatment applying to dividends received from overseas portfolio investments of its with-profits fund. In February 2018 the Supreme Court heard HMRC's appeal against the earlier Court of Appeal decision in PAC's favour. The decision of the Supreme Court released in July 2018 upheld the main point in dispute in PAC's favour but reversed the decisions of the lower courts on some practical points of how to apply that principle. PAC and HMRC are working through the mechanics of implementing the Supreme Court decision. This work has led to a reduction in the estimate for policyholder tax credit recoverable during 2019 together with the estimate of interest receivable (see below). As at 30 June 2019, PAC has recognised a total policyholder tax credit of £122m (31 December 2018: £150m; 31 December 2017: £150m; 31 December 2016: £nil) in respect of its claim against HMRC. Of this amount, £38m has been paid by HMRC to PAC in relation to interest and the remaining balance is held as an amount of tax due from HMRC.

The estimate for interest receivable from HMRC reduced during 2019 as a result of working through the mechanics of the Supreme Court decision. The total amount of interest recognised for the six months ended 30 June 2019 is £25.7m (for the year ended 31 December 2018: £40m; 31 December 2017: £40m; 31 December 2016: £nil). Under the terms of the agreement governing the domestication of PAC's Hong Kong branch in 2014, its Hong Kong subsidiary, an Excluded Subsidiary, was entitled to a proportionate share of any tax and interest ultimately paid to PAC. As at 30 June 2019, PAC is holding a provision of £12m (31 December 2018: £12m; 31 December 2017: £12m; 31 December 2016: £nil) in respect of this liability which is included within other liabilities. It is expected the issue will be finalised

in the next twelve months at which point PAC should receive full and final payment of both the tax and interest elements.

9.4 Current tax – combined statement of financial position

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Tax recoverable within 12 months	263	222	230	304
Tax recoverable after 12 months	8	14	7	3
Total current tax assets	271	236	237	307
Tax due within 12 months	427	245	299	546
Tax due after 12 months	—	—	—	—
Total current tax liabilities	427	245	299	546

10. Dividends

	For the six months ended 30 June		For the year ended 31 December		
	Unaudited				
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m
Dividends paid - cash	356	429	526	649	590
Dividends paid - in specie	752	—	—	30	—
Total dividends paid	1,108	429	526	679	590

Dividends paid represents aggregate amounts remitted to Prudential plc during the Track Record Period, by its direct subsidiaries included in this combined HFI.

As dividends paid represent an aggregation of cash remittances and transfer of assets, there is no meaningful disclosure on dividend per share.

On 7 August 2019, 20 September 2019 and 18 October 2019 the Company declared a dividend of £97m, £187m and £2,968m respectively to its pre-Demerger parent, Prudential plc.

11. Goodwill and intangible assets

	As at 30 June			As at 31 December			As at 31 December			As at 31 December		
	2019			2018			2017			2016		
	Goodwill	Intangible assets	Total	Goodwill	Intangible assets	Total	Goodwill	Intangible assets	Total	Goodwill	Intangible assets	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost												
At start of period	1,360	154	1,514	1,208	197	1,405	1,306	164	1,470	1,338	143	1,481
Additions	—	20	20	162	12	174	39	33	72	6	22	28
Disposals and transfers	—	(12)	(12)	(10)	(56)	(66)	(138)	—	(138)	(41)	(3)	(44)
Exchange differences	—	—	—	—	1	1	1	—	1	3	2	5
At end of period	1,360	162	1,522	1,360	154	1,514	1,208	197	1,405	1,306	164	1,470
Accumulated amortisation and impairment												
At start of period	(5)	(63)	(68)	—	(84)	(84)	—	(72)	(72)	—	(56)	(56)
Amortisation	—	(6)	(6)	—	(13)	(13)	—	(12)	(12)	—	(16)	(16)
Impairment	—	(29)	(29)	(5)	(22)	(27)	—	—	—	—	—	—
Disposals and transfers	—	3	3	—	55	55	—	—	—	—	—	—
Exchange differences	—	—	—	—	1	1	—	—	—	—	—	—
At end of period	(5)	(95)	(100)	(5)	(63)	(68)	—	(84)	(84)	—	(72)	(72)
Net book amount	1,355	67	1,422	1,355	91	1,446	1,208	113	1,321	1,306	92	1,398

11.1 Goodwill

Goodwill comprises:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Arising on acquisition of M&G Group Limited	1,154	1,154	1,154	1,154
Arising on acquisition of subsidiaries held by the with-profits fund	201	201	54	152
	1,355	1,355	1,208	1,306

(A) Impairment assessment

Goodwill does not generate cash flows independently of other groups of assets, and thus, is assigned to cash-generating units for the purposes of impairment testing. These cash-generating units are based upon how management monitors the business and represent the lowest level to which goodwill can be allocated on a reasonable basis.

Goodwill is tested annually for impairment by comparing the cash-generating units' carrying amount, including any goodwill, with its recoverable amount.

(i) M&G Group Limited

There were no indications of impairment of M&G Group Limited goodwill at 30 June 2019. The carrying value of goodwill in respect of M&G Group Limited was tested for impairment as at 31 December 2018 and no impairment was identified. The recoverable amount for the goodwill in respect of M&G Group Limited at 31 December 2018 was determined by calculating the value in use of the cash-generating unit (M&G Group Limited and its subsidiaries). The value in use was determined by calculating the present value of future cash flows based on a three-year plan, approved by management, and cash flow projections for later years. The value in use is particularly sensitive to a number of key assumptions as follows:

- the set of economic, market and business assumptions used to derive the three-year plan. The direct and secondary effects of recent developments, such as changes in global equity markets and trends in fund flows, are considered by management in arriving at the expectations for the final projections for the plan;
- the assumed growth rate on forecast cash flows beyond the terminal year of the plan after considering expected future and past growth rates. As at 31 December 2018 a growth rate of 1.7% (31 December 2017: 1.7%; 31 December 2016: 2.0%) was used to extrapolate beyond the plan period;
- various risk discount rates were applied in accordance with the nature of the individual component businesses. For the most material components of retail and institutional business, as at 31 December 2018 a risk discount rate of 12% (31 December 2017: 12%; 31 December 2016: 12%) was applied to post-tax cash flows. The pre-tax risk discount rate as at 31 December 2018 was 15% (31 December 2017: 15%; 31 December 2016: 16%); and
- that asset management contracts continue on similar terms.

Management believes that any reasonable change in the key assumptions would not cause the recoverable amount to fall below its carrying amount and therefore there is no impact on the carrying value of goodwill.

At 30 June 2019, there was no change in the above assumptions and there were no indicators of impairment. Accordingly no impairment has been recognised.

(ii) Acquisition of subsidiaries held by the with-profits fund

Goodwill arising on acquisition of subsidiaries relates to acquisitions made within consolidated infrastructure private equity vehicles which are held by the PAC with-profits fund. Management believes that any reasonable change in the key assumptions would not cause the recoverable amount to fall below its carrying amount.

11.2 Intangible assets

Intangible assets comprise insurance contracts acquired through business combinations, software, service concessions and licences.

12. Deferred acquisition costs

	As at 30 June						As at 31 December					
	2019			2018			2017			2016		
	Insurance contracts	Other contracts	Total	Insurance contracts	Other contracts	Total	Insurance contracts	Other contracts	Total	Insurance contracts	Other contracts	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At start of period	49	56	105	39	51	90	30	59	89	24	71	95
Additions	8	—	8	15	15	30	14	3	17	11	1	12
Amortisation to the income statement	(4)	(2)	(6)	(5)	(10)	(15)	(5)	(11)	(16)	(5)	(13)	(18)
Disposals and transfers	—	—	—	—	—	—	—	—	—	—	—	—
At end of period	53	54	107	49	56	105	39	51	90	30	59	89

13. Investments in joint ventures and associates

13.1 Investments in joint ventures and associates accounted for using the equity method

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Interests in joint ventures	566	697	464	409
Interests in associates	39	45	40	39
Total	605	742	504	448

	For the six months ended 30 June		For the year ended 31 December		
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m
Share of profit from joint ventures	24	11	35	106	22
Share of profit from associates	9	9	16	15	12
Share of profit from joint ventures and associates	33	20	52	121	34

There is no share of other comprehensive income from joint ventures or associates.

(A) Interests in joint ventures accounted for using the equity method

All of the Group's investments in joint ventures which are accounted for using the equity method are property vehicles held in the WPSF. The results of the Group's joint ventures are reflected in the movement in the unallocated surplus of the WPSF and therefore do not affect shareholders' results.

No joint ventures are considered to be material individually or in aggregate from the Group's perspective for any of the reported periods. None of the Group's joint ventures are listed and financial information of these investments covering the same periods as that of the Group has been used for accounting for these investments using the equity method.

(B) Interests in associates accounted for using the equity method

The Group has interests in associates which are accounted for using the equity method in the combined financial statements. All of the Group's associates which are accounted for using the equity method are held by the shareholder-backed business. No associates are considered to be material individually or in aggregate from a Group perspective for any of the reported periods. None of the Group's equity-accounted associates are listed and the reporting date and reporting period of the Group's equity-accounted associates are the same as the Group.

13.2 Interests in associates accounted for at FVTPL

The Group has investments in collective investment vehicles, funds holding collateralised debt obligations, property unit trusts and venture capital investments of the WPSF where the Group has significant influence. These investments are accounted for on a FVTPL basis and are included within equity securities and portfolio holdings in unit trusts in the combined statement of financial position.

None of the associates accounted for at FVTPL are considered individually material to the Group during the periods reported in this HFI.

The aggregate fair value of associates accounted for at FVTPL was £267m as at 30 June 2019 (31 December 2018: £237m; 31 December 2017: £2,271m, 31 December 2016: £2,952m).

14. PPE

PPE comprises right of use assets, Group occupied property and other tangible assets. A reconciliation of the carrying amount of these items from the beginning of the year to the end of the period is as follows:

	For the six months ended				For the year ended 31 December									
	2019				2018				2017				2016	
	Right of use assets (i)	Group occupied property	Other tangible assets (ii)	Total	Right of use assets (i)	Group occupied property	Other tangible assets (ii)	Total	Group occupied property	Other tangible assets (ii)	Total	Group occupied property	Other tangible assets (ii)	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost														
At start of period	298	80	1,109	1,487	39	80	541	660	131	556	687	134	961	1,095
Additions	7	13	158	178	259	2	187	448	16	39	55	2	250	252
Arising on acquisition of subsidiaries	—	—	6	6	—	5	517	522	—	177	177	—	—	—
Disposals and transfers	—	(4)	(14)	(18)	—	(8)	(139)	(147)	(76)	(241)	(317)	(28)	(688)	(716)
Net exchange differences	—	—	(5)	(5)	—	1	3	4	9	10	19	23	33	56
At end of period	305	89	1,254	1,648	298	80	1,109	1,487	80	541	621	131	556	687
Accumulated depreciation														
At start of period	(17)	(13)	(192)	(222)	—	(11)	(206)	(217)	(30)	(386)	(416)	(22)	(350)	(372)
Depreciation charge for the period	(12)	(1)	(33)	(46)	(17)	(2)	(34)	(53)	(13)	(22)	(35)	(8)	(85)	(93)
Disposals and transfers	—	—	1	1	—	—	47	47	33	213	246	5	54	59
Net exchange differences	—	—	2	2	—	—	1	1	(1)	(11)	(12)	(5)	(5)	(10)
At end of period	(29)	(14)	(222)	(265)	(17)	(13)	(192)	(222)	(11)	(206)	(217)	(30)	(386)	(416)
Net book amount	276	75	1,032	1,383	281	67	917	1,265	69	335	404	101	170	271

(i) Right of use assets: On adoption of IFRS 16 on 1 January 2018 the Group recognised right of use assets of £39m for leases of land and buildings which are used as office space across various locations. Some leases include lease break options that are exercisable at the option of the Group. As at 30 June 2019, £18m (31 December 2018: £21m) of right of use assets were held by the WPSF.

(ii) Other tangible assets: As at 30 June 2019, £875m (31 December 2018: £782m; 31 December 2017: £296m; 31 December 2016: £127m) of other tangible assets were held by the WPSF.

15. Investment property

Investment property principally relates to the PAC with-profits fund and is carried at fair value. A reconciliation of the carrying amount of investment property from the beginning of the year to the end of the period is set out below:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
At start of period	18,003	16,607	14,740	13,539
Additions:				
Resulting from property acquisitions	989	1,332	1,999	1,458
Resulting from expenditure capitalised	170	183	39	189
Disposals	(46)	(211)	(712)	(878)
Net (loss)/gain from fair value adjustments	(246)	144	561	378
Net foreign exchange differences	(91)	(52)	(20)	95
Transfers to held for sale assets	(1)	—	—	(41)
At end of period	18,778	18,003	16,607	14,740

For the six months ended 30 June 2019 rental income from investment property was £507m (30 June 2018: £466m; for the year ended 31 December 2018: £927m; 31 December 2017: £876m; 31 December 2016: £781m). Direct operating expenses, including repairs and maintenance arising from these properties for the six months ended 30 June 2019 were £24m (30 June 2018: £29m; for the year ended 31 December 2018: £56m; 31 December 2017: £82m; 31 December 2016: £67m).

The Group's policy is to let investment property to tenants through operating leases. Minimum future rentals to be received on non-cancellable operating leases of the Group's freehold investment property are receivable in the following periods:

	For the six months ended 30 June		For the year ended 31 December		
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m
Less than 1 year	361	293	307	315	308
1 to 5 years	1,291	982	1,049	1,048	1,053
Over 5 years	2,599	2,097	2,217	2,259	2,602
Total minimum future rental income	4,251	3,372	3,573	3,622	3,963

The total minimum future rentals to be received on non-cancellable sub-leases for the Group's investment property held under finance leases for the six months ended 30 June 2019 were £1,540m (30 June 2018: £1,581m, for the year ended 31 December 2018: £1,596m; 31 December 2017: £1,527m; 31 December 2016: £2,238m).

16. Defined benefit pension schemes

16.1 Background and summary economic and IAS 19 financial positions

The Group operates three defined pension schemes, which historically have been funded by the Group and Prudential plc. The largest defined benefit scheme as at 30 June 2019 is the Prudential Staff Pension Scheme ("PSPS") which accounts for 82% (31 December 2018: 82%; 31 December 2017: 82%; 31 December 2016: 82%) of the economic present value of the defined benefit pension liabilities.

The Group also operates two smaller defined benefit pension schemes that were originally established by the M&G ("**M&GGPS**") and Scottish Amicable ("**SASPS**") businesses prior to their acquisition.

Under IAS 19: *Employee Benefits* and IFRIC 14: *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, the Group can only recognise a surplus to the extent that it is able to access the surplus either through an unconditional right of refund or through reduced future contributions relating to ongoing service of active members. The Group has no unconditional right of refund to any surplus in PSPS. Accordingly, PSPS's net economic defined benefit pension asset is restricted up to the Group's present value of the economic benefit, which is calculated as the difference between the full future cost of service for active members and the estimated future ongoing contributions. In contrast, the Group is able to access the surplus of SASPS and M&GGPS through an unconditional right of refund. Therefore, the surplus resulting from the schemes (if any) would be recognised in full. Currently, both the M&GGPS and SASPS scheme are in deficit based on the IAS 19 valuation.

Prior to 30 June 2019, the PSPS net economic defined benefit pension asset was attributed 70% to the with-profits fund (part of the Group). This attribution has been determined following detailed consideration of the sourcing of previous contributions. The remainder of the PSPS scheme was outside the Group and was attributable to Prudential plc. On 30 June 2019, in preparation for the Demerger, the 30% attributable to Prudential plc was formally reallocated to the Group's shareholders. The HFI presented up to 30 June 2019 includes only the element of the PSPS scheme related to the with-profits fund, being the element of the scheme within the perimeter. As at 30 June 2019, the full value of the scheme surplus allowable under IFRIC 14 was attributed to the Group and is therefore reflected on the combined statement of financial position at this date. This resulted in an incremental defined benefit pension asset of £15m recognised on the combined statement of financial position, with the corresponding gain recognised in other comprehensive income.

M&GGPS's net pension defined benefit liability is the obligation of the Group's shareholders. The reason for the deficit is that the defined benefit pension scheme has investments in insurance policies issued by Prudential Pensions Limited, a subsidiary of the Group, through which it invests in certain pooled funds. These policies are eliminated on consolidation. If the insurance policies were not eliminated the scheme would have a net defined benefit pension asset.

SASPS's net economic defined benefit pension liability, is funded 40% by the with-profits fund and 60% by the Group's shareholders.

Changes to scheme rules

In January 2019, following consultation, the Group reached agreement that salary increases for the members of all the three UK defined benefit schemes who earn in excess of £35,000 would be capped after 30 September 2019. Pension benefits will still relate to how many years they have been active scheme members, as they do now, as long as the members remain working for the Group.

The pension scheme valuations for the schemes as at 30 June 2019 incorporate the effect of these changes in scheme rules. The reduction in the defined benefit obligation as a result of these changes is recognised in the income statement as a past service credit.

The pension assets and liability by defined benefit pension schemes are as follows:

	As at 30 June 2019			
	PSPS (i) £m	SASPS £m	M&GGPS £m	Total £m
Fair value of plan assets	7,428	868	658	8,954
Present value of defined benefit obligation	(6,474)	(906)	(484)	(7,864)
Effect of restriction on surplus	(903)	—	—	(903)
Net economic defined benefit pension asset/(liability) (ii)	51	(38)	174	187
Inter company insurance policies	—	—	(256)	(256)
Net defined benefit pension asset/(liability)	51	(38)	(82)	(69)
Net defined benefit pension asset/(liability) attributable to the Group				
Shareholder-backed business	15	(21)	(82)	(92)
With-profits fund	36	(17)	—	23
	51	(38)	(82)	(69)

(i) As at 30 June 2019, the surplus of PSPS has been allocated 70% to the with-profits fund and 30% to the Group's shareholders. Until 30 June 2019, the shareholder's share of surplus was attributable to Prudential plc. Hence, the related amounts have been shown as attributable to external parties. No deficit funding is required for PSPS.

(ii) The economic basis reflects the underlying position of the defined benefit schemes, adjusted for the effect of IFRIC 14 for the derecognition of PSPS's unrecognisable surplus. The economic basis is prior to elimination of inter-company insurance arrangements.

	As at 31 December 2018			
	PSPS (i)	SASPS	M&GGPS	Total
	£m	£m	£m	£m
Fair value of plan assets	7,075	806	598	8,479
Present value of defined benefit obligation	(6,167)	(885)	(467)	(7,519)
Effect of restriction on surplus	(677)	—	—	(677)
Net economic defined benefit pension asset/(liability) (ii)	231	(79)	131	283
Inter company insurance policies	—	—	(225)	(225)
Net defined benefit pension asset/(liability)	231	(79)	(94)	58
Less: amount attributable to Prudential plc	(69)	—	—	(69)
Net defined benefit pension asset/(liability) attributable to the Group	162	(79)	(94)	(11)
Net defined benefit pension asset/(liability) attributable to the Group				
Shareholder-backed business	—	(45)	(94)	(140)
With-profits fund	162	(34)	—	129
	162	(79)	(94)	(11)

As at 31 December 2017				
	PSPS (i) £m	SASPS £m	M&GGPS £m	Total £m
Fair value of plan assets	7,474	822	617	8,913
Present value of defined benefit obligation	(6,753)	(959)	(508)	(8,220)
Effect of restriction on surplus	(485)	—	—	(485)
Net economic defined benefit pension asset/(liability) (ii)	236	(137)	109	208
Inter company insurance policies	—	—	(151)	(151)
Net defined benefit pension asset/(liability)	236	(137)	(42)	57
Less: amount attributable to Prudential plc	(71)	—	—	(71)
Net defined benefit pension asset/(liability) attributable to the Group	165	(137)	(42)	(14)
Net defined benefit pension asset/(liability) attributable to the Group				
Shareholder-backed business	—	(82)	(42)	(124)
With-profits fund	165	(55)	—	110
	165	(137)	(42)	(14)

As at As at 31 December 2016				
	PSPS (i) £m	SASPS £m	M&GGPS £m	Total £m
Fair value of plan assets	7,627	801	573	9,001
Present value of defined benefit obligation	(6,910)	(1,038)	(489)	(8,437)
Effect of restriction on surplus	(558)	—	—	(558)
Net economic defined benefit pension asset/(liability) (ii)	159	(237)	84	6
Inter company insurance policies	—	—	(134)	(134)
Net defined benefit pension asset/(liability)	159	(237)	(50)	(128)
Less: amount attributable to Prudential plc	(48)	—	—	(48)
Net defined benefit pension asset/(liability) attributable to the Group	111	(237)	(50)	(176)
Net defined benefit pension asset/(liability) attributable to the Group				
Shareholder-backed business	—	(142)	(50)	(192)
With-profits funds	111	(95)	—	16
	111	(237)	(50)	(176)

(A) Triennial actuarial valuations

A full actuarial valuation is required for defined benefit pension schemes every three years in order to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds. The actuarial valuation differs from the IAS 19 accounting basis valuation in a number of respects, including the discount rate assumption where IAS 19 prescribes a rate based on high-quality corporate bonds while a more 'prudent' assumption is typically used for the actuarial valuation.

Summary information on the latest completed actuarial valuation for each of the schemes is shown in the table below:

	PSPS	SASPS	M&GGPS
Last completed actuarial valuation date	5 April 2017	31 March 2017	31 December 2017
Funding level at the last valuation	105%	75%	120%
Deficit funding arrangement agreed with the Trustees based on the last completed valuation	No deficit funding required	Deficit funding of £26m per annum from 1 April 2017 until 31 March 2027, or earlier if the scheme's funding level reaches 100%. The deficit funding will be reviewed every three years at subsequent valuations	No deficit funding required
Current level of employer contributions for active members	Approximately £3.5m per annum	Approximately £7m per annum	Approximately £5.5m per annum
Contributions to cover ongoing administration and other expenses	Approximately £5m per annum	Approximately £1m per annum	Approximately £1.5m per annum

(B) Risks to which the defined benefit schemes expose the Group

The plans are subject to the statutory funding objective requirements of the Pensions Act 2004, which require that plans be funded to at least the level of their technical provisions (an actuarial estimate of the assets needed to provide for the benefits already built up under the plan). Where there is a deficit, the employers of the schemes would agree a deficit recovery plan. Accordingly, the pension schemes expose the Group to a number of risks, the most significant of which are interest rate risk, equity risk, inflation risk, credit risk and mortality risk.

(C) Corporate governance

The Group's pension schemes are established under trust and are subject to UK legal requirements; this includes being subject to regulation by 'the Pension Regulator' in accordance with the Pensions Act 2004. Each scheme has a corporate trustee to which some directors are appointed by Group employers with the remaining directors nominated by members in accordance with UK legal requirements. The trustees have the ultimate responsibility to ensure that each scheme is managed in accordance with its Trust Deed and Rules. The trustees act in the best interests of the schemes' beneficiaries; this includes taking appropriate account of each employers' legal obligation and financial ability to support the schemes when setting investment strategy and when agreeing funding with the employers. The employers' contribution commitments are formally updated at each triennial valuation; between valuations funding levels and employer strength continue to be monitored, with the trustees being able to bring forward the next triennial valuation if they consider it appropriate to do so.

All of the Group's defined benefit pension schemes are final salary schemes, which are closed to new entrants. Going forward, pensionable salaries for most members will be capped at their levels as at 30 September 2019. The trustee of each scheme sets the general investment policy and specifies any restrictions on types of investment and the degrees of divergence permitted from the benchmark, but delegates the responsibility for selection and realisation of specific investments to the investment managers. The trustees consult with the principal employer for each scheme on the investment principles, but the ultimate responsibility for the investment of the assets of the schemes lies with the trustees.

The relevant trustees of each of the schemes manage the investment strategy of the scheme to achieve an acceptable balance between investing in the assets that most closely match the expected benefit payments and assets that are expected to achieve a greater return in the hope of reducing the contributions required or providing additional benefits to members. For all three schemes and especially PSPS, a significant portion of the scheme assets are invested in liability matching assets such as bonds and gilts, including index-linked gilts, to partially hedge against inflation. In addition, the schemes maintain portfolios of interest rate and inflation swaps to match more closely the duration and inflation profiles of their assets to their liabilities.

Both SASPS and M&GGPS have invested in a mix of both return-seeking assets, such as equities and property, and matching assets, including leveraged liability driven investment portfolios to reflect the liability profile of the scheme. They manage the risks of the return-seeking exposure by investing in a diversified mix of investments.

16.2 Assumptions

(A) Demographic assumptions:

(i) Post-retirement mortality

The calculation of the defined benefit obligation for the Group's schemes requires assumptions to be set for both current mortality and the allowance for future improvements in mortality. The below table sets out the base mortality table and assumptions for future longevity improvements used for the Group's schemes over the historical period, along with the associated life expectancies.

As at	Mortality Tables (with scaling factors applied to reflect experience)	Mortality improvements model (calibrated to reflect scheme-specific views)	Expectation of life from retirement at aged 60			
			Male currently aged 60	Male currently aged 40	Female currently aged 60	Female currently aged 40
30 June 2019	S2PMA/S2PFA for males/females	CMI 2016	27.5	29.8	28.4	30.4
31 December 2018	S2PMA/S2PFA for males/females	CMI 2015	28.1	30.9	29.0	31.4
31 December 2017	PNMA00/PNFA00 for males/females	CMI 2014	28.3	30.8	30.0	32.7
31 December 2016	PNMA00/PNFA00 for males/females	CMI 2014	28.2	30.7	29.9	32.6

(ii) Withdrawal assumptions for changes in scheme rules

As a result of the changes in scheme rules, an update as at 30 June 2019 was made to the withdrawal assumptions used for the pension scheme valuation to reflect the expected increase in opt-outs

(withdrawals) from the schemes. The effect of this assumption change is reflected within actuarial gains and losses in the combined statement of comprehensive income.

(B) Economic assumptions

The actuarial assumptions used in determining defined benefit obligations and the net periodic benefit costs are as follows. These assumptions were used for all schemes.

	For the six months ended June		For the year ended 31 December		
	2019 %	2018 %	2018 %	2017 %	2016 %
Discount rate (i)	2.2	2.6	2.8	2.5	2.6
Rate of increase in salaries (where applicable) (ii)	3.2	3.1	3.3	3.1	3.2
Rate of inflation (iii)					
Retail prices index (RPI)	3.2	3.1	3.3	3.1	3.2
Consumer prices index (CPI)	2.2	2.1	2.3	2.1	2.2
PSPS rate of increase of pensions in payment for inflation (iv):					
Guaranteed (maximum 5%)	2.5	2.5	2.5	2.5	2.5
Guaranteed (maximum 2.5%)	2.5	2.5	2.5	2.5	2.5
Discretionary	2.5	2.5	2.5	2.5	2.5

(i) The discount rate has been determined by reference to an 'AA' corporate bond index, adjusted where applicable to allow for the difference in duration between the index and the pension liabilities.

(ii) Note that due to the scheme changes during H1 2019, the pensionable salary used to determine scheme benefits will for most members be frozen at their 30 September 2019 levels.

(iii) The rate of inflation used reflects the long-term assumption for UK RPI or CPI depending on the particular tranche of scheme benefits.

(iv) Certain tranches of scheme benefits within PSPS have statutory pension increases in line with CPI up to a maximum level of inflation, whereas others are not guaranteed and determined by the employer on a discretionary basis. Over the historical period, the rate of increase in pensions in payment for inflation has been the same for all tranches of scheme benefits.

(C) Other assumptions

In October 2018, the High Court ruled that pension schemes are required to equalise benefits for the effect of guaranteed minimum pensions ("GMPs"). GMPs are a minimum benefit that schemes that were contracted-out on a salary-related basis between 1978 and 1997 are required to provide. In light of this Court ruling, at 30 June 2019 and 31 December 2018, the Group has recognised an estimated allowance for GMP equalisation within the net defined benefit pension asset/liability of £32m for PSPS, £18m for SASPS, and £5m for M&GGPS as at 30 June 2019 (£22m for PSPS, £17m for SASPS and £5m for M&GGPS as at 31 December 2018).

(D) Sensitivity of the pension scheme liabilities to key variables

The sensitivity information below is based on the core scheme liabilities and assumptions at the balance sheet date. The sensitivities are calculated based on a change in one assumption with all other assumptions being held constant. As such, interdependencies between the assumptions are excluded. The impact of the rate of inflation assumption sensitivity includes the impact of inflation on the rate of increase in salaries and rate of increase of pensions in payment.

The sensitivities of the underlying pension scheme liabilities as shown below do not directly equate to the impact on the profit or loss attributable to the Group due to the effect of restriction on surplus for PSPS and the allocation of a share of the interest in the financial position of PSPS and SASPS to the with-profits fund as described above. The Group's shareholders' exposure to changes in the PSPS liability increased on 30 June 2019 as a result of the transfer of the 30% surplus from Prudential plc to the Group.

Impact of sensitivity on scheme liabilities on an IAS 19 basis

			As at 30 June	As at 31 December		
Sensitivity - change in assumptions			2019	2018	2017	2016
Discount rate	Decrease by 0.2%	Increase in scheme liabilities of:				
		PSPS	3.3 %	3.5 %	3.5 %	3.5 %
		Other schemes	5.0 %	5.0 %	5.4 %	5.3 %
Discount rate	Increase by 0.2%	Decrease in scheme liabilities of:				
		PSPS	3.2 %	3.3 %	3.4 %	3.5 %
		Other schemes	4.7 %	4.7 %	4.9 %	5.0 %
Rate of inflation	RPI: Decrease by 0.2%	Decrease in scheme liabilities of:				
	CPI: Decrease by 0.2%	PSPS	0.5 %	0.6 %	0.6 %	0.6 %
	with consequent reduction in salary increases (where applicable)	Other schemes	3.5 %	3.9 %	3.9 %	4.1 %
Mortality rate	Increase in life expectancy by 1 year	Increase in scheme liabilities of:				
		PSPS	4.0 %	3.9 %	4.0 %	3.5 %
		Other schemes	4.1 %	3.9 %	3.8 %	3.7 %

16.3 Plan assets of the schemes under the economic basis

	As at 30 June								As at 31 December							
	2019				2018				2017				2016			
	Other		Total		Other		Total		Other		Total		Other		Total	
	PSPS	schemes			PSPS	schemes			PSPS	schemes			PSPS	schemes		
	£m	£m	£m	%	£m	£m	£m	%	£m	£m	£m	%	£m	£m	£m	%
Equities																
UK	—	7	7	—	8	6	14	—	9	67	76	1	18	85	103	1
Overseas	17	60	77	1	204	53	257	3	226	272	498	6	293	368	661	7
Bonds (i)																
Government	4,731	665	5,396	60	4,596	538	5,134	61	5,040	655	5,695	63	5,411	550	5,961	66
Corporate	1,654	473	2,127	24	1,586	454	2,040	24	1,491	248	1,739	20	1,169	196	1,365	15
Asset-backed securities	259	14	273	3	263	12	275	3	164	—	164	2	144	6	150	2
Derivatives	174	(1)	173	2	103	4	107	1	188	(6)	182	2	252	(2)	250	3
Property	147	144	291	3	143	143	286	3	140	130	270	3	71	109	180	2
Other assets	446	164	610	7	172	194	366	5	216	73	289	3	269	62	331	4
Total value of assets (ii)	7,428	1,526	8,954	100	7,075	1,404	8,479	100	7,474	1,439	8,913	100	7,627	1,374	9,001	100

(i) As at 30 June 2019, 89% of the bonds are investment grade (31 December 2018: 87%; 31 December 2017: 89%; 31 December 2016: 93%).

(ii) As at 30 June 2019, 94% of the total value of the scheme assets are derived from quoted prices in an active market (31 December 2018: 94%; 31 December 2017: 96%; 31 December 2016: 98%). None of the scheme assets included property occupied by the Group. The IAS 19 basis plan assets as at 30 June 2019 of £8,698m (31 December 2018: £8,254m; 31 December 2017: £8,762m; 31 December 2016: £8,886m) is different from the economic basis plan assets of £8,954m (31 December 2018: £8,479m; 31 December 2017: £8,913m; 31 December 2016: £9,001m) as shown above due to the exclusion of investment in Group insurance policies by M&G GPS as described in Note 16.1.

16.4 Reconciliation in movement of defined benefit pension asset/liability

	Economic basis					Attributable to		
	Fair value of plan assets	Present value of benefit obligation	Effect of asset ceiling	Net economic defined benefit pension asset/(liability)	Other adjustments	Net defined benefit pension asset/(liability)	Prudential plc	M&G plc
	£m	£m	£m	£m	£m	£m	£m	£m
Net defined benefit pension asset/(liability) at 1 January 2019	8,479	(7,519)	(677)	283	(225)	58	69	(11)
Total expense recognised in combined income statement:								
Current service cost	—	(14)	—	(14)	—	(14)	(4)	(10)
Past service costs	—	150	—	150	—	150	20	130
Net interest	114	(101)	(9)	4	(3)	1	—	1
Administration expenses	(5)	—	—	(5)	—	(5)	(1)	(4)
Total expense recognised in combined income statement (i)	109	35	(9)	135	(3)	132	15	117
Remeasurements:								
Actuarial gains and losses								
Return on the scheme assets less amount included in interest income	563	—	—	563	(7)	556	130	426
Gains/(losses) on changes in demographic assumptions	—	145	—	145	—	145	36	109
Gains/(losses) on changes in financial assumptions	—	(739)	—	(739)	—	(739)	(170)	(569)
Experience gains on scheme liabilities	—	(8)	—	(8)	—	(8)	(5)	(3)
Unrecognisable surplus	—	—	(217)	(217)	—	(217)	(62)	(155)
Remeasurements gains/(losses) (ii)	563	(602)	(217)	(256)	(7)	(263)	(71)	(192)
Transfer in of net defined benefit pension asset	—	—	—	—	—	—	(15)	15
Benefit payments	(222)	222	—	—	—	—	—	—
Employers' contributions	25	—	—	25	—	25	2	23
Employees' contributions	—	—	—	—	—	—	—	—
Transfer into investment in the Group's insurance policies	—	—	—	—	(21)	(21)	—	(21)
Net defined benefit pension asset/(liability) at 30 June 2019	8,954	(7,864)	(903)	187	(256)	(69)	—	(69)

(i) Included in the total expense recognised in the combined income statement attributable to the Group for the six months ended 30 June 2019 are amounts relating to the with-profits fund totalling £60m (for the year ended 31 December 2018: £47m; 2017: £19m; 2016: £9m).

(ii) Included in the share of remeasurement gains and losses attributable to the Group for the six months ended 30 June 2019 are losses relating to shareholders totalling £13m (for the year ended 31 December 2018: gains of £68m; 2017: gains of £72m; 2016: losses of £107m) which are recognised in other comprehensive income. The amounts attributable to the with-profits fund for the six months ended 30 June 2019 amount to losses of £179m (for the year ended 31 December 2018: gains of £46m; 2017: gains of £93m; 2016: losses of £78m) are recognised in other comprehensive income and transferred to unallocated surplus of the with-profits fund.

	Economic basis					Attributable to		
	Fair value of plan assets £m	Present value of benefit obligation £m	Effect of asset ceiling £m	Net economic defined benefit pension asset/(liability) £m	Other adjustments £m	Net defined benefit pension asset/(liability) £m	Prudential plc £m	M&G plc £m
Net defined benefit pension asset/(liability) at 1 January 2018	8,913	(8,220)	(485)	208	(151)	57	71	(14)
Total expense recognised in combined income statement:								
Current service cost	—	(44)	—	(44)	—	(44)	(15)	(29)
Past service costs	—	(53)	—	(53)	—	(53)	(9)	(44)
Net interest	216	(200)	(13)	3	(4)	(1)	1	(2)
Administration expenses	(8)	—	—	(8)	—	(8)	(3)	(5)
Total expense recognised in combined income statement (i)	208	(297)	(13)	(102)	(4)	(106)	(26)	(80)
Remeasurements:								
Actuarial gains and losses								
Return on the scheme assets less amount included in interest income	(221)	—	—	(221)	10	(211)	(56)	(155)
Gains/(losses) on changes in demographic assumptions	—	168	—	168	—	168	37	131
Gains/(losses) on changes in financial assumptions	—	330	—	330	—	330	85	245
Experience gains on scheme liabilities	—	27	—	27	—	27	—	27
Unrecognisable surplus	—	—	(179)	(179)	—	(179)	(45)	(134)
Remeasurements gains/(losses) (ii)	(221)	525	(179)	125	10	135	21	114
Benefit payments	(473)	473	—	—	—	—	—	—
Employers' contributions	51	—	—	51	—	51	2	49
Employees' contributions	1	—	—	1	—	1	1	—
Transfer into investment in the Group's insurance policies	—	—	—	—	(80)	(80)	—	(80)
Net defined benefit pension asset/(liability) at 31 December 2018	8,479	(7,519)	(677)	283	(225)	58	69	(11)

	Economic basis					Attributable to		
	Fair value of plan assets	Present value of benefit obligation	Effect of asset ceiling	Net economic defined benefit pension asset/(liability)	Other adjustments	Net defined benefit pension asset/(liability)	Prudential plc	M&G plc
	£m	£m	£m	£m	£m	£m	£m	£m
Net defined benefit pension asset/(liability) at 1 January 2017	9,001	(8,437)	(558)	6	(134)	(128)	48	(176)
Total expense recognised in combined income statement:								
Current service cost	—	(46)	—	(46)	—	(46)	(15)	(31)
Net interest	228	(214)	(14)	—	(3)	(3)	1	(4)
Administration expenses	(8)	—	—	(8)	—	(8)	(2)	(6)
Total expense recognised in combined income statement (i)	220	(260)	(14)	(54)	(3)	(57)	(16)	(41)
Remeasurements:								
Actuarial gains and losses								
Return on the scheme assets less amount included in interest income	120	—	—	120	(6)	114	12	102
Gains/(losses) on changes in demographic assumptions	—	(10)	—	(10)	—	(10)	(3)	(7)
Gains/(losses) on changes in financial assumptions	—	(101)	—	(101)	—	(101)	(28)	(73)
Experience gains on scheme liabilities	—	110	—	110	—	110	21	89
Unrecognisable surplus	—	—	87	87	—	87	33	54
Remeasurements gains/(losses) (ii)	120	(1)	87	206	(6)	200	35	165
Benefit payments	(479)	479	—	—	—	—	—	—
Employers' contributions	50	—	—	50	—	50	4	46
Employees' contributions	1	(1)	—	—	—	—	—	—
Transfer into investment in the Group's insurance policies	—	—	—	—	(8)	(8)	—	(8)
Net defined benefit pension asset/(liability) at 31 December 2017	8,913	(8,220)	(485)	208	(151)	57	71	(14)

	Economic basis					Attributable to		
	Fair value of plan assets	Present value of benefit obligation	Effect of asset ceiling	Net economic defined benefit pension asset/(liability)	Other adjustments	Net defined benefit pension asset/(liability)	Prudential plc	M&G plc
	£m	£m	£m	£m	£m	£m	£m	£m
Net defined benefit pension asset/(liability) at 1 January 2016	7,815	(6,853)	(800)	162	(77)	85	51	34
Total expense recognised in combined income statement:								
Current service cost	—	(33)	—	(33)	—	(33)	(13)	(20)
Net interest	291	(254)	(32)	5	(3)	2	1	1
Administration expenses	(5)	—	—	(5)	—	(5)	(1)	(4)
Total expense recognised in combined income statement (i)	286	(287)	(32)	(33)	(3)	(36)	(13)	(23)
Remeasurements:								
Actuarial gains and losses								
Return on the scheme assets less amount included in interest income	1,203	—	—	1,203	(13)	1,190	285	905
Gains/(losses) on changes in demographic assumptions	—	(18)	—	(18)	—	(18)	(10)	(8)
Gains/(losses) on changes in financial assumptions	—	(1,733)	—	(1,733)	—	(1,733)	(384)	(1,349)
Experience gains on scheme liabilities	—	106	—	106	—	106	26	80
Unrecognisable surplus	—	—	274	274	—	274	87	187
Remeasurements gains/(losses) (ii)	1,203	(1,645)	274	(168)	(13)	(181)	4	(185)
Benefit payments	(350)	350	—	—	—	—	—	—
Employers' contributions	45	—	—	45	—	45	6	39
Employees' contributions	2	(2)	—	—	—	—	—	—
Transfer into investment in the Group's insurance policies	—	—	—	—	(41)	(41)	—	(41)
Net defined benefit pension asset/(liability) at 31 December 2016	9,001	(8,437)	(558)	6	(134)	(128)	48	(176)

16.5 Maturity analysis of benefit obligations

The following table provides an expected maturity analysis of the undiscounted benefit obligations:

	All schemes						Total £m
	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	
	£m	£m	£m	£m	£m	£m	
As at 30 June 2019	246	1,099	1,518	1,532	1,507	6,163	12,065
As at 31 December 2018	257	1,142	1,593	1,641	1,631	7,426	13,690
As at 31 December 2017	255	1,108	1,589	1,667	1,661	7,889	14,169
As at 31 December 2016	243	1,090	1,585	1,694	1,704	8,508	14,824

Total employer contributions paid into the defined benefit schemes which were attributable to the Group for the six months ended 30 June 2019 were £25m (for the year ended 31 December 2018: £50m; 31 December 2017: £47m, 31 December 2016: £42m).

17. Loans

The amounts included in the statement of financial position are analysed as follows:

	As at 30 June	As at 31 December		
	2019 £m	2018 £m	2017 £m	2016 £m
Mortgage loans	4,433	4,458	4,582	2,796
Policy loans	3	3	4	6
Other loans	1,561	1,448	1,859	1,256
Total	5,997	5,909	6,445	4,058

17.1 Mortgage Loans

During 2017, the WPSF invested in an entity that holds a portfolio of buy-to-let mortgage loans which are carried at fair value through profit or loss. The vehicle financed its acquisitions through the issue of debt instruments, largely to external parties, securitised upon the loans acquired. See Note 22 for further details.

As at 30 June 2019, 80% of the £2,172m (31 December 2018: 79% of £1,997m; 31 December 2017: 81% of £2,140m; 31 December 2016: 80% of £2,129m) mortgage loans held by the shareholder-backed business related to lifetime (equity release) mortgage business. The equity release mortgages are carried at fair value through profit or loss.

17.2 Other Loans

Other loans are mainly comprised of syndicated and bridge commercial loans.

The carrying value of loans held at amortised cost are reported net of allowance for loan losses of £39m as at 30 June 2019 (31 December 2018: £38m; 31 December 2017: £36m; 31 December 2016: £32m).

18. Classification of financial instruments

18.1 Financial assets

As at 30 June 2019		Fair value through profit or loss			Total
		Designated	Held for trading	Loans and receivables	
	Note	£m	£m	£m	£m
Loans	17	3,379	—	2,618	5,997
Derivative assets	28	—	2,883	—	2,883
Equity securities and pooled investment funds		67,484	—	—	67,484
Deposits		—	—	16,792	16,792
Debt securities	28	85,174	—	—	85,174
Accrued investment income and other debtors		—	—	3,117	3,117
Cash and cash equivalents	20	—	—	4,624	4,624
Total financial assets		156,037	2,883	27,151	186,071

As at 31 December 2018		Fair value through profit or loss			Total
		Designated	Held for trading	Loans and receivables	
	Note	£m	£m	£m	£m
Loans	17	3,281	—	2,628	5,909
Derivative assets	28	—	2,513	—	2,513
Equity securities and pooled investment funds		60,793	—	—	60,793
Deposits		—	—	12,020	12,020
Debt securities	28	85,956	—	—	85,956
Accrued investment income and other debtors		—	—	4,090	4,090
Cash and cash equivalents	20	—	—	4,739	4,739
Total financial assets		150,030	2,513	23,477	176,020

As at 31 December 2017		Fair value through profit or loss			Total
		Designated	Held for trading	Loans and receivables	
	Note	£m	£m	£m	£m
Loans	17	3,708	—	2,737	6,445
Derivative assets	28	—	2,954	—	2,954
Equity securities and pooled investment funds		68,487	—	—	68,487
Deposits		—	—	10,050	10,050
Debt securities	28	92,707	—	—	92,707
Accrued investment income and other debtors		—	—	3,482	3,482
Cash and cash equivalents	20	—	—	5,799	5,799
Total financial assets		164,902	2,954	22,068	189,924

As at 31 December 2016

	Note	Fair value through profit or loss			Total £m
		Designated £m	Held for £m	Loans and £m	
Loans	17	1,706	—	2,352	4,058
Derivative assets	28	—	2,927	—	2,927
Equity securities and pooled investment funds		59,729	—	—	59,729
Deposits		—	—	10,790	10,790
Debt securities	28	90,795	—	—	90,795
Accrued investment income and other debtors		—	—	4,084	4,084
Cash and cash equivalents	20	—	—	5,056	5,056
Total financial assets		152,230	2,927	22,282	177,439

Financial assets expected to be recovered after one year as at 30 June 2019 are £84,432m (31 December 2018: £84,690m; 31 December 2017: £94,663m; 31 December 2016: £93,424m).

18.2 Financial liabilities**As at 30 June 2019**

	Note	Fair value through profit or loss			Total £m
		Designated £m	Held for trading £m	Loans and receivables £m	
Investment contract liabilities without discretionary participation features	21	15,695	—	—	15,695
Third party interest in consolidated funds	28	9,040	—	—	9,040
Borrowings and subordinated liabilities	22	1,504	—	2,208	3,712
Derivative liabilities		—	2,677	—	2,677
Other financial liabilities	28	—	—	2,723	2,723
Accruals, deferred income and other liabilities		379	—	6,206	6,585
Total financial liabilities		26,618	2,677	11,137	40,432

As at 31 December 2018

	Note	Fair value through profit or loss			Total £m
		Designated £m	Held for trading £m	Loans and receivables £m	
Investment contract liabilities without discretionary participation features	21	15,560	—	—	15,560
Third party interest in consolidated funds	28	9,383	—	—	9,383
Borrowings and subordinated liabilities	22	1,606	—	2,449	4,055
Derivative liabilities		—	2,208	—	2,208
Other financial liabilities	28	—	—	2,592	2,592
Accruals, deferred income and other liabilities		355	—	4,873	5,228
Total financial liabilities		26,904	2,208	9,914	39,026

As at 31 December 2017

	Note	Fair value through profit or loss			Total
		Designated	Held for trading	Loans and receivables	
		£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	21	17,069	—	—	17,069
Third party interest in consolidated funds	28	5,638	—	—	5,638
Borrowings and subordinated liabilities	22	1,887	—	1,990	3,877
Derivative liabilities		—	1,661	—	1,661
Other financial liabilities	28	—	—	3,255	3,255
Accruals, deferred income and other liabilities		367	—	4,233	4,600
Total financial liabilities		24,961	1,661	9,478	36,100

As at 31 December 2016

	Note	Fair value through profit or loss			Total
		Designated	Held for trading	Loans and receivables	
		£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	21	16,171	—	—	16,171
Third party interest in consolidated funds	28	6,034	—	—	6,034
Borrowings and subordinated liabilities	22	—	—	1,507	1,507
Derivative liabilities		—	1,861	—	1,861
Other financial liabilities	28	—	—	3,269	3,269
Accruals, deferred income and other liabilities		384	—	3,843	4,227
Total financial liabilities		22,589	1,861	8,619	33,069

Other financial liabilities relate to obligations under funding, securities lending and sale and repurchase agreements. Financial liabilities expected to be settled in more than one year as at 30 June 2019 are £5,126m (31 December 2018: £4,659m; 31 December 2017: £5,232m; 31 December 2016: £3,481m).

19. Accrued investment income and other debtors

	As at 30 June		As at 31 December	
	2019	2018	2017	2016
	£m	£m	£m	£m
Interest receivable	781	895	1,035	1,136
Other	664	527	493	781
Total accrued investment income	1,445	1,422	1,528	1,917
Other	1,704	2,684	1,982	2,179
Total other debtors	1,704	2,684	1,982	2,179
Total accrued investment income and other debtors	3,149	4,106	3,510	4,096
Analysed as:				
Expected to be settled within one year	2,951	3,935	3,366	3,950
Expected to be settled after one year	198	171	144	146
Total accrued investment income and other debtors	3,149	4,106	3,510	4,096

20. Cash and cash equivalents

	As at 30 June	As at 31 December		
	2019 £m	2018 £m	2017 £m	2016 £m
Cash	3,086	3,642	4,251	3,498
Cash equivalents	1,538	1,097	1,548	1,558
Total cash and cash equivalents	4,624	4,739	5,799	5,056

Cash equivalents consist solely of money market fund investments with a maturity of less than 90 days at acquisition.

21. Policyholder liabilities and unallocated surplus

21.1 Determination of insurance and investment contract liabilities for different contracts

Note 2.2 describes the different types of insurance products across the business. A description relating to the determination of the policyholder liabilities and the main assumptions for each main product group is set out below:

(A) With-profits business

The with-profits fund mainly contains with-profits contracts but also contains some non-profit business (unit-linked, term assurances and annuities). The liabilities of the with-profits fund are accounted for on a realistic basis in accordance with the requirements of FRS 27 *Life Assurance*. The realistic basis is consistent with the detailed methodology included in regulations contained in the rules issued previously by the Prudential Regulatory Authority (the “PRA”) for the determination of reserves on the PRA’s realistic basis under the Solvency I capital regime. Though no longer in force for regulatory purposes, these rules continue to be applied to determine with-profits contract liabilities in accordance with IFRS 4 Insurance Contracts. In aggregate, the regime has the effect of placing a market consistent value on the liabilities of with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the with-profits fund and current circumstances.

The with-profits contracts are a combination of insurance and investment contracts with discretionary participation features, as defined by IFRS 4. The realistic basis requires the value of liabilities to be calculated as:

- a with-profits benefits reserve; plus
- future policy-related liabilities; plus
- the realistic current liabilities of the fund.

The with-profits benefits reserve is primarily based on the retrospective calculation of accumulated asset shares but is adjusted to reflect future policyholder benefits and other charges and expenses. Asset shares broadly reflect the policyholders’ share of the with-profits fund assets attributable to their policies. As such the value of the policyholder liabilities for with-profits business is primarily driven by investment performance.

The future policy-related liabilities comprise other components of the liability including a market consistent valuation of costs of guarantees, options and smoothing, less any related charges, and this amount is determined using stochastic modelling techniques.

Assumptions used for realistic, market-consistent valuation of with-profits business typically do not contain margins, whereas those used for the valuation of other classes of business (for example, annuities) contain margins of prudence within the assumptions. The main assumptions used in the prospective elements of the with-profits policyholder liabilities are below:

- Persistency assumptions are set based on the results of the most recent experience analysis looking at the experience over recent years of the relevant business.
- Management actions under which the fund is managed in different scenarios.
- Maintenance and, for some classes of business, termination expense assumptions are expressed as per policy amounts. They are set based on the expenses incurred during the period, including an allowance for ongoing investment expenditure and allocated between entities and product groups in accordance with the operation's internal cost allocation model.
- Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve.
- The contract liabilities for with-profits business also require assumptions for mortality. These are set based on the results of recent experience analysis.

With the exception of the reinsurance of part of the non-profit annuity business contained within the with-profits fund to Prudential Hong Kong Limited, a subsidiary of Prudential plc, there are no significant external reinsurance arrangements in place in respect of the with-profits fund's liabilities. The reinsurance asset in respect of this reinsurance arrangement is valued in a manner consistent with the valuation of the underlying liabilities.

(i) Unallocated surplus

The unallocated surplus of the with-profits fund represents the excess of the fund's assets over policyholder liabilities that have yet to be appropriated between policyholders and shareholders. The unallocated surplus is recorded wholly as a liability with no allocation to equity. The annual excess (shortfall) of income over expenditure of the with-profits fund, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to (from) the unallocated surplus each year through a charge (credit) to the income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders.

(ii) Determination of bonuses

Determining discretionary bonuses for traditional types of with-profits business requires the PAC Board to apply significant judgement, including in particular the following:

- determining what constitutes fair treatment of customers;
- smoothing of investment returns; and

- determining at what level to set bonuses to ensure that they are competitive.

The overall rate of return on investments and the expectation of future investment returns are the most important influences in bonus rates, subject to the smoothing described below. The Group determines the assumptions to apply in respect of these factors, including the effects of reasonably likely changes in key assumptions, in the context of the overarching discretionary and smoothing framework that applies to its with-profits business.

The Group's approach, in applying significant judgement and discretion in relation to determining bonus rates, is consistent with the Principles and Practices of Financial Management ("**PPFM**") that explains how the Group manages its with-profits fund. In accordance with industry-wide regulatory requirements, the PAC Board has appointed:

- A Chief Actuary who provides the PAC Board with all actuarial advice;
- A With-Profits Actuary whose specific duty is to advise the PAC Board on the reasonableness and proportionality of the manner in which its discretion has been exercised in applying the PPFM and the manner in which any conflicting interests have been addressed; and
- A With-Profits Committee of independent individuals, which assesses the degree of compliance with the PPFM and the manner in which conflicting interests and rights have been addressed.

In determining bonus rates for the with-profits policies, smoothing is applied to the allocation of the overall earnings of the with-profits fund of which the investment return is a significant element. The degree of smoothing is illustrated numerically by comparing in the following table the relatively 'smoothed' level of policyholder bonuses declared as part of the surplus for distribution, with the more volatile movement in investment return and other items of income and expenditure of the with-profits fund.

	For the year ended 31 December		
	2018 £m	2017 £m	2016 £m
Net income of the with-profits fund:			
Investment return	(2,359)	9,986	13,171
Claims incurred	(8,776)	(8,449)	(7,410)
Movement in policyholder liabilities	(554)	(10,011)	(11,824)
Add back policyholder bonus for the year (as shown below)	2,345	2,071	1,934
Claims incurred and movement in policyholder liabilities (including change for provision for asset shares and excluding policyholder bonuses)	(6,985)	(16,389)	(17,300)
Earned premium, net of reinsurance	12,505	12,508	9,261
Other income	36	36	73
Acquisition costs and other expenditure	(1,064)	(1,746)	(1,161)
Share of profits from joint ventures and associates	36	106	22
Tax charge	273	(440)	(739)
Net income of the with-profits fund before movement in unallocated surplus	2,442	4,061	3,327
Movement in unallocated surplus of the with-profits fund	162	(1,757)	(1,178)
Surplus for distribution	2,604	2,304	2,149
Surplus for distribution allocated as follows:			
- 90% policyholders' bonus (as shown above)	2,345	2,071	1,934
- 10% shareholders' transfers	259	233	215
Surplus for distribution	2,604	2,304	2,149

As the amount of surplus available for distribution among with-profits policyholders and shareholders is determined annually, this table is not provided for the six months ended 30 June 2019 or 30 June 2018.

(B) Unit-linked business

For unit-linked contracts the attaching liability reflects the unit value obligation and, in the case of contracts with significant insurance risk which are therefore classified as insurance contracts, a provision for expenses and mortality risk. The latter component is determined by applying mortality assumptions on a basis that is appropriate for the policyholder profile. To calculate the non-unit reserves for unit-linked insurance contracts, assumptions are set for maintenance expense inflation, and also the unit growth rate and the valuation interest rate. The valuation interest rate is derived from the yields of assets representative of the returns that will be earned on the assets backing these liabilities.

For those contracts where the level of insurance risk is insignificant, the assets and liabilities arising under the contracts are distinguished between those that relate to the financial instrument liability and acquisition costs and deferred income that relate to the component of the contract that relates to investment management. Acquisition costs and deferred income are recognised consistent with the level of service provision.

Certain parts of the unit-linked business are reinsured externally, either by way of fund reinsurance or reinsuring specific risk benefits. The reinsurance asset in respect of these reinsurance arrangements is valued in a manner consistent with the valuation of the underlying liabilities.

(C) Annuities and other long-term business

The vast majority of the policyholder liabilities in the ‘annuities and other long-term business’ component relate to annuity contracts. The annuity liabilities are calculated as the expected value of future annuity payments and expenses, discounted by a valuation interest rate, having prudent regard to the assumptions used.

As discussed in Note 2, on 14 March 2018 part of the annuity liability was reinsured externally to Rothesay Life Plc. In addition, some of the longevity risk in respect of the remaining annuity business is reinsured externally by way of longevity swaps. The reinsurance asset in respect of these reinsurance arrangements is valued in a manner consistent with the valuation of the underlying liabilities.

The key assumptions for the annuity business are as follows:

(i) Mortality

Mortality assumptions for annuity business are set in light of recent population and internal experience, with an allowance for expected future mortality improvements. Given the long-term nature of annuity business, annuitant mortality remains a significant assumption in determining policyholder liabilities. The assumptions used reference recent population mortality data, with specific risk factors applied on a per policy basis to reflect the features of the Group’s portfolio.

Over the historical period, there have been declining mortality improvements observed in recent population data, and these have been considered as part of the judgement exercised in setting the mortality basis for each period. New mortality projection models are released annually by the Continuous Mortality Investigation (“CMI”). The CMI tables used are adjusted as appropriate each reporting period to reflect anticipated mortality improvements, including an appropriate margin for prudence. The mortality improvement assumptions used are summarised in the table below:

CMI Model, with calibration to reflect future mortality improvements*		
30 June 2019	CMI 2017	For males: with a long-term improvement rate of 2.25% pa For females: with a long-term improvement rate of 2.00% pa
31 December 2018	CMI 2016	For males: with a long-term improvement rate of 2.25% pa For females: with a long-term improvement rate of 2.00% pa
31 December 2017	CMI 2015	For males: with a long-term improvement rate of 2.25% pa For females: with a long-term improvement rate of 2.00% pa
31 December 2016	CMI 2014	For males: with a long-term improvement rate of 2.25% pa For females: with a long-term improvement rate of 1.50% pa

*As at 30 June 2019 and 31 December 2018, the long-term improvement rates shown reflected a 0.5% increase to all future improvement rates as a margin for prudence. As at 31 December 2017 and 31 December 2016, prudence was considered to be sufficiently allowed for through the long-term improvement rate.

For annuities in deferment, the mortality tables used as at 31 December 2017 and 31 December 2016 were AM92 - four years (males) and AF92 - four years (females). As at 30 June 2019 and 31 December 2018, the mortality assumptions for in-force vested annuities were extended to cover annuities in deferment.

(ii) Valuation interest rates

Valuation interest rates used to discount the liabilities are based on the yields as at the valuation date on the assets backing the policyholder liabilities. For fixed interest securities the internal rate of return

of the assets backing the liabilities is used. For 2016 and 2017 reporting, investment properties were valued using the lower of the rental yield and the redemption yield, but for 2018 onwards they were valued using the redemption yield. Equities are valued using the greater of the dividend yield and the average of the dividend yield and the earnings yield.

An adjustment is made to the yield on non-risk-free fixed interest securities and property to reflect credit risk. The credit risk allowance comprises an amount for long term best estimate defaults and additional provisions for credit risk premium, the cost of downgrades and short term defaults. The allowance for credit risk within the valuation interest rate is of particular importance when determining policyholder liabilities.

(iii) Expenses

Maintenance expense assumptions are expressed as per policy amounts. They are set based on the expenses incurred during the year, including an allowance for ongoing investment expenditure and allocated between entities and product groups in accordance with the Group's internal cost allocation model. A margin for adverse deviation is added to this amount. Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve.

The sensitivity of IFRS profit before tax to changes in the above assumptions are shown in Note 28.

21.2 Analysis of movements in policyholder liabilities and unallocated surplus of the with-profits fund

The following tables show the movement in policyholder liabilities and unallocated surplus of the with-profits fund by business component. The analysis includes the impact of premiums, claims and investment movements on policyholder liabilities. The impact does not represent premiums, claims, and investment movements as reported in the income statement as the analysis includes the impact of investment contracts accounted for as financial instruments. Additionally the premiums shown below will exclude any deductions for fees / charges, as the table only shows the impact on the insurance and investment contract liabilities and unallocated surplus of the with-profits fund.

Claims (surrenders, maturities, and deaths) represent the liability released rather than the claim amount paid to the policyholder.

	Shareholder-backed funds				Reinsurance asset	Net total
	With-profits sub-funds†	Unit-linked liabilities	Annuity and other long-term business	Total		
	£m	£m	£m	£m	£m	£m
At 1 January 2016	100,147	21,442	31,745	153,334	(2,156)	151,178
Comprising:						
Insurance contract liabilities	46,789	5,692	31,682	84,163		
Investment contract liabilities with dpf	42,709	—	—	42,709		
Investment contract liabilities without dpf	28	15,750	63	15,841		
Unallocated surplus of the with-profits fund	10,621	—	—	10,621		
Net Flows:						
Premiums	9,287	1,227	615	11,129		
Surrenders	(3,854)	(2,888)	(78)	(6,820)		
Maturities/deaths	(4,314)	(583)	(1,938)	(6,835)		
Net flows	1,119	(2,244)	(1,401)	(2,526)		
Shareholders' transfers post-tax	(215)	—	—	(215)		
Switches	(152)	152	—	—		
Investment-related items and other movements	11,806	2,770	4,166	18,742		
Foreign exchange translation differences	528	—	—	528		
At 31 December 2016/ 1 January 2017	113,233	22,120	34,510	169,863	(2,589)	167,274
Comprising:						
Insurance contract liabilities	49,001	6,029	34,434	89,464		
Investment contract liabilities with dpf	52,477	—	13	52,490		
Investment contract liabilities without dpf	17	16,091	63	16,171		
Unallocated surplus of the with-profits fund	11,738	—	—	11,738		
Net Flows:						
Premiums	12,527	1,922	361	14,810		
Surrenders	(4,506)	(2,342)	(91)	(6,939)		
Maturities/deaths	(4,564)	(612)	(1,959)	(7,135)		
Net flows	3,457	(1,032)	(1,689)	736		
Shareholders' transfers post-tax	(233)	—	—	(233)		
Switches	(192)	192	—	—		
Investment-related items and other movements	8,411	1,865	845	11,121		
Foreign exchange translation differences	113	—	(1)	112		
At 31 December 2017/ 1 January 2018	124,789	23,145	33,665	181,599	(2,521)	179,078
Comprising:						
Insurance contract liabilities	48,894	6,097	33,632	88,623		
Investment contract liabilities with dpf	62,323	—	17	62,340		
Investment contract liabilities without dpf	5	17,048	16	17,069		
Unallocated surplus of the with-profits fund	13,567	—	—	13,567		
Net Flows:						
Premiums	12,525	1,147	339	14,011		
Surrenders	(4,764)	(1,950)	(66)	(6,780)		
Maturities/deaths	(4,552)	(619)	(1,625)	(6,796)		
Net flows	3,209	(1,422)	(1,352)	435		
Reclassification of reinsured UK annuity contracts as held for sale (i)	—	—	(10,858)	(10,858)		
Shareholders' transfers post-tax	(259)	—	—	(259)		
Switches	(165)	165	—	—		
Investment-related items and other movements	(3,332)	(1,171)	(1,071)	(5,574)		
Foreign exchange translation differences	(14)	—	—	(14)		

	Shareholder-backed funds				Reinsurance asset	Net total
	With-profits sub-funds†	Unit-linked liabilities	Annuity and other long-term business	Total		
	£m	£m	£m	£m	£m	£m
At 31 December 2018/ 1 January 2019	124,228	20,717	20,384	165,329	(2,812)	162,517
Comprising						
Insurance contract liabilities	43,775	5,219	20,304	69,298		
Investment contract liabilities with dpf	67,018	—	20	67,038		
Investment contract liabilities without dpf	2	15,498	60	15,560		
Unallocated surplus of the with-profits fund	13,433	—	—	13,433		
Net Flows:						
Premiums	5,669	447	151	6,267		
Surrenders	(2,462)	(1,548)	(25)	(4,035)		
Maturities/deaths	(2,309)	(224)	(617)	(3,150)		
Net flows	898	(1,325)	(491)	(918)		
Shareholders' transfers post-tax	(130)	—	—	(130)		
Switches	(56)	56	—	—		
Investment-related items and other movements	8,426	1,670	838	10,934		
Foreign exchange translation differences	(6)	54	—	48		
At 30 June 2019	133,360	21,172	20,731	175,263	(2,690)	172,573
Comprising:						
Insurance contract liabilities	50,217	5,532	20,649	76,398		
Investment contract liabilities with dpf	67,331	—	29	67,360		
Investment contract liabilities without dpf	2	15,640	53	15,695		
Unallocated surplus of the with-profits fund	15,810	—	—	15,810		

† Includes the WPSF, the DCPSF and the SAIF.

(i) The reclassification as held for sale during 2018 reflects the value of the policyholder liabilities held at 1 January 2018 covered by the reinsurance agreement between PAC and Rothesay Life Plc discussed in Note 2.

Further analysis of the movement in the Group's insurance contract liabilities, reinsurance asset, investment contract liabilities and unallocated surplus of the with-profits fund is provided below. The movement in these items is predominantly allocated to the 'benefits and claims and movement in unallocated surplus of with-profits fund, net of reinsurance' line in the combined income statement, along with benefits and claims paid to policyholders, net of amounts recovered from reinsurers.

	Insurance contract liabilities	Reinsurance asset (iii)	Investment contract liabilities (iv)	Unallocated surplus of the with-profits fund
	£m	£m	£m	£m
At 1 January 2016	84,163	(2,156)	58,550	10,621
Income and expense included in the income statement (i)	5,169	(433)	11,867	1,178
Other movements including amounts included in other comprehensive income (ii)	—	—	(1,771)	(58)
Foreign exchange translation differences	132	—	15	(3)
At 31 December 2016/1 January 2017	89,464	(2,589)	68,661	11,738
Income and expense included in the income statement (i)	(858)	68	11,037	1,757
Other movements including amounts included in other comprehensive income (ii)	—	—	(336)	75
Foreign exchange translation differences	17	—	47	(3)
At 31 December 2017/1 January 2018	88,623	(2,521)	79,409	13,567
Income and expense included in the income statement (i)	(8,838)	(10,793)	3,932	(162)
Other movements including amounts included in other comprehensive income (ii)	(10,502)	10,502	(713)	27
Foreign exchange translation differences	15	—	(30)	1
At 31 December 2018/1 January 2019	69,298	(2,812)	82,598	13,433
Income and expense included in the income statement (i)	7,005	504	1,456	2,247
Other movements including amounts included in other comprehensive income (ii)	100	(382)	(1,053)	131
Foreign exchange translation differences	(5)	—	54	(1)
At 30 June 2019	76,398	(2,690)	83,055	15,810

The balances at 30 June 2019 include a reduction of £482m in technical provisions offset by an equal increase in the unallocated surplus of the with-profits funds when compared to the Historical Financial Information issued by the Company on 25 September 2019 to reflect the latest information available in respect of experience that has emerged on the quantum of redress due to policyholders in respect of the pension mis-selling review and the latest data available for the calculation of technical provisions in respect of historic Group Pensions Annuity business.

(i) The total charge for the 'benefits and claims and movement in unallocated surplus of with-profits fund, net of reinsurance' shown in the combined income statement comprises the amounts shown as 'income and expense included in the income statement' in the table above together with benefits and claims paid of £6,163m for the six months ended 30 June 2019 (for the year ended 31 December 2018: £12,228m; 31 December 2017: £12,082m; 31 December 2016: £11,148m), net of amounts recovered from reinsurers of £911m for the six months ended 30 June 2019 (for the year ended 31 December 2018: £1,437m; 31 December 2017: £1,101m; 31 December 2016: £1,099m).

(ii) Other movements include premiums received and claims paid on investment contracts without discretionary participating features, which are taken directly to the statement of financial position in accordance with IAS 39, changes in the unallocated surplus of the with-profits fund resulting from actuarial gains and losses on the Group's defined benefit pension schemes, which are recognised directly in other comprehensive income, and balance sheet reallocations which totalled £100m for the six months ended 30 June 2019 (for the year ended 31 December 2018: £10,502m; 31 December 2017: £nil; 31 December 2016: £nil). The amount for reallocations represents, for 31 December 2018, the reclassification of the reinsured UK annuity business as held for sale, and for the six months ended 30 June 2019, the movement in the held for sale liability and corresponding reinsurance asset together with other transfers of £282m between insurance contract liabilities and the unallocated surplus of the with-profits funds.

(iii) Includes reinsurers' share of claims outstanding of £146m as at 30 June 2019 (31 December 2018: £149m; 31 December 2017: £151m; 31 December 2016: £156m).

(iv) This comprises investment contracts with discretionary participation features of £67,560m as at 30 June 2019 (31 December 2018: £67,038m; 31 December 2017: £62,340m; 31 December 2016: £52,490m) and investment contracts without discretionary participation features of £15,695m as at 30 June 2019 (31 December 2018: £15,560m; 31 December 2017: £17,069m; 31 December 2016: £16,171m).

21.3 Duration of liabilities

The tables below show the expected timing of the cash flows which make up the policyholder liabilities, over the historical period. The expected timing of the cash flows will depend on the contract term and also expectations of future mortality, longevity and persistency, depending on the type of contract. For with-profits and unit-linked contracts, actual amounts payable will vary with future investment performance of the funds. The following tables show the carrying value of the policyholder liabilities and the expected timing of the cash flows, on a discounted basis:

As at 30 June 2019									
	With-profits business			Annuity business (insurance contracts)			Other including unit-linked		
	Insurance contracts	Investment contracts	Total	Non-profit annuities within WPSF	Shareholder-backed annuity	Total	Insurance contracts	Investment contracts	Total
Carrying value (£m)	40,688	67,333	108,021	9,529	19,779	29,308	6,402	15,722	22,124
									159,453
Expected cash flow timing:									
0 to 5 years	34 %	38 %	37 %	31 %	25 %	27 %	44 %	32 %	36 %
5 to 10 years	24 %	26 %	25 %	27 %	24 %	25 %	25 %	24 %	24 %
10 to 15 years	16 %	17 %	17 %	18 %	19 %	19 %	15 %	18 %	17 %
15 to 20 years	11 %	9 %	10 %	11 %	14 %	13 %	8 %	12 %	11 %
20 to 25 years	7 %	5 %	5 %	6 %	9 %	8 %	4 %	7 %	6 %
over 25 years	8 %	5 %	6 %	7 %	9 %	8 %	4 %	7 %	6 %
	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %

(i) The cash flow projections of expected liability payments used in the expected cash flow timing table above are from value of in-force business and exclude the value of future new business, including future vesting of internal pension contracts.

(ii) Liability payments do not reflect the pattern of bonuses and shareholder transfers in respect of the with-profits business.

(iii) Shareholder-backed annuity business includes the legacy shareholder annuity business but for 31 December 2018 excludes the amount held for sale.

As at 31 December 2018[illegible]

As at 31 December 2017[illegible]

As at 31 December 2016

[illegible]

22. Borrowings and subordinated liabilities

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Operational borrowings	132	106	148	167
Borrowings attributable to the with-profits fund	3,580	3,949	3,729	1,340
Total borrowings	3,712	4,055	3,877	1,507

22.1 Operational borrowings attributable to shareholder-financed operations

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Bank loans and overdrafts	—	—	21	—
Other borrowings	132	106	127	167
Total	132	106	148	167

In addition, other borrowings include amounts for which repayment to the lender is contingent upon future surplus emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on those contracts, there is no recourse to other assets of the Group and the liability is not payable to the degree of shortfall.

In March 2019 the Group entered into revolving credit facilities of £1.5bn with several banks and financial institutions and these are due to mature in 2024. As at 30 June 2019 these remain undrawn.

22.2 Borrowings attributable to the with-profits fund

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Non-recourse borrowings of consolidated investment funds (i)	3,501	3,872	3,593	1,185
£100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance plc (ii)	—	—	100	100
Bank loans and overdrafts	40	40	—	—
Other borrowings	39	37	36	55
Total	3,580	3,949	3,729	1,340

(i) In all instances the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of these subsidiaries and funds. The significant increase as at 31 December 2017 primarily relates to debt instruments issued by new consolidated securitisation entities backed by a portfolio of mortgage loans (see Note 17 for further details). These debt instruments, which were valued at £1,504m as at 30 June 2019 (31 December 2018: £1,606m; 31 December 2017: £1,887m) are carried at fair value through profit or loss, consistent with the underlying mortgage portfolio. A new fund was added in 2018 that had additional borrowings of £230m.

(ii) The interests of the holders of the bonds issued by Scottish Amicable Finance plc, a subsidiary of SAIF, were subordinated to the entitlements of the policyholders of that fund.

22.3 Maturity analysis

The following table sets out the remaining contractual maturity analysis of the Group's borrowings as recognised in the statement of financial position:

Operational borrowings £m						
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
As at 30 June 2019	37	92	—	—	—	3
As at 31 December 2018	15	88	—	—	—	3
As at 31 December 2017	22	—	123	—	—	3
As at 31 December 2016	—	—	—	164	—	3

Borrowings attributable to the with-profits fund £m						
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
As at 30 June 2019	225	120	10	166	52	3,007
As at 31 December 2018	584	71	90	5	102	3,097
As at 31 December 2017	370	371	184	59	1	2,744
As at 31 December 2016	114	48	108	8	146	916

23. Leases

The Group adopted IFRS 16 on 1 January 2018. For further details see Note 1.3(A).

The Group leases various land and buildings to utilise as office space. Information about leases for which the Group is a lessee is presented below.

As at 30 June 2019, £18m (31 December 2018: £21m) of the lease liabilities are attributable to the with-profits fund.

Movement of the lease liabilities is as follows:

	As at 30 June 2019 £m	As at 31 December 2018 £m
As at the start of the period	316	40
Additions	8	274
Interest expense	5	11
Lease repayments	(6)	(9)
As at end of period	323	316

	As at 30 June	As at 31 December
	2019	2018
	£m	£m
Non-current	313	307
Current	10	9
Total lease liabilities	323	316

Some of the leases of office buildings contain lease break options exercisable by the Group. The Group assesses at lease commencement whether it is reasonably certain to exercise the option. This assertion is revisited if there is a material change in circumstances.

The undiscounted value of lease payments beyond the break period not recognised in the lease liabilities as at 30 June 2019 is £61m.

24. Provisions

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Regulatory	262	326	371	177
Staff benefits	99	123	151	143
Restructuring	3	4	4	7
Other	52	59	20	18
Total provisions	416	512	546	345

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
At start of period	512	546	345	247
Charged to combined income statement:				
Additional provisions	40	71	(113)	218
Unused amounts released	(18)	(7)	(5)	(44)
Used during the year	(118)	(98)	319	(76)
	416	512	546	345

Regulatory Provisions - FCA Thematic Review of non-advised Annuity Sales Practices

Regulatory provisions includes a provision for review of past annuity sales of £261m as at 30 June 2019 (31 December 2018: £324m; 31 December 2017: £369m; 31 December 2016: £175m). PAC has agreed with the Financial Conduct Authority (the "FCA") to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. The review is examining whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from PAC or another pension provider. A gross provision of £175m was established in 2016 to cover the costs of undertaking the review and any related redress and increased by £225m to a gross provision of £400m in 2017. Following a reassessment, no change was made in 2018 or at 30 June 2019. The majority of the provision is being utilised in 2019. The ultimate amount that will be expended by PAC on the review will remain uncertain until the project is completed. If the population subject to redress increased or decreased by 10%, then the provision would be expected to increase or decrease by circa 7% accordingly. Additionally, in 2018, PAC agreed with its professional indemnity insurers that they will meet £166m of claims costs, which will be paid as PAC incurs costs/ redress. This

income has been recognised in other income in the combined income statement for the year ended 31 December 2018 and on the combined statement of financial position within other debtors as at 31 December 2018. There has been no further income recognised in the six months to 30 June 2019. In addition, the FCA has been conducting an enforcement investigation in relation to historic annuity sales sold without advice, which is currently in stage 1 (stage 1 is where the FCA seeks to resolve its findings by agreement in which case a discount of 30% is applied to any financial penalty imposed). This enforcement investigation resulted, on 30 September 2019, in PAC agreeing to a financial penalty of £24m.

Staff benefits

Staff benefits primarily relates to performance related bonuses expected to be paid to staff over the next three years.

25. Accruals, deferred income and other liabilities

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Accruals and deferred income	1,270	1,282	890	839
Creditors arising from insurance operations	1,318	1,329	1,507	1,538
Interest payable	14	12	10	5
Other	4,538	3,639	2,465	2,189
Total accruals, deferred income and other liabilities	7,140	6,262	4,872	4,571
Analysed as:				
Expected to be settled within one year	6,290	5,474	4,021	3,900
Expected to be settled after one year	850	788	851	671
Total accruals, deferred income and other liabilities	7,140	6,262	4,872	4,571

26. Structured entities

Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. The Group invests in structured entities such as:

- Pooled investment vehicles, including OEICs, unit trusts, SICAVs and limited partnerships.
- Debt securitisation vehicles, including collateralised debt obligations, mortgage-backed securities and other similar asset-backed securities

Structured entities which the Group is deemed to control are consolidated in the Group's financial statements. As at 30 June 2019, 31 December 2018, 31 December 2017 and 31 December 2016 the Group has not provided, and has no intention to provide, non-contractual financial or other support to consolidated or unconsolidated structured entities that could expose the Group to a loss.

26.1 Investments in unconsolidated structured entities

The table below shows aggregate carrying amounts of the investments in unconsolidated structured entities reported in the combined statement of financial position:

	As at 30 June	As at 31 December		
	2019 £m	2018 £m	2017 £m	2016 £m
Statement of financial position line item				
Equity securities and pooled investment funds	12,342	8,318	12,245	10,396
Debt securities	3,070	4,491	4,609	4,288
Total	15,412	12,809	16,854	14,684

The Group generates returns and retains the ownership risks in these investments commensurate to its participation and does not have any further exposure to the residual risks or losses of the investments or the vehicles in which it holds investments. Further details on risks associated with financial assets and how they are managed are provided in Note 28.

Included in equity securities and pooled investment funds as at 30 June 2019 were £5,780m (31 December 2018: £2,987m; 31 December 2017: £4,814m; 31 December 2016: £3,985m) of investments in structured entities managed by the Group. Investment management fees recognised in the period from managing these entities were for the six months ended 30 June 2019, £330m (30 June 2018: £318m; for the year ended 31 December 2018: £593m; 31 December 2017: £657m; 31 December 2016: £605m).

The maximum exposure to loss for unconsolidated structured entities in which the Group holds an investment is the carrying value of the Group's investment and the loss of future fees.

The Group also has interests in structured entities managed by the Group in which it holds no investment through the collection of investment management fees. The maximum exposure to loss for these interests is loss of future fees. Investment management fees recognised for the six months ended 30 June 2019 from managing these entities were £48m (30 June 2018: £81m; for the year ended 31 December 2018: £157m; 31 December 2017: £135m; 31 December 2016: £110m).

27. Fair value methodology

27.1 Determination of fair value hierarchy

The fair values of assets and liabilities for which fair valuation is required under IFRS are determined by the use of current market bid prices for exchange-quoted investments, by using quotations from independent third parties such as brokers and pricing services, or by using appropriate valuation techniques. Fair value is the amount for which an asset could be exchanged or a liability settled in an arm's length transaction.

To provide further information on the approach used to determine and measure the fair value of certain assets and liabilities, the following fair value hierarchy categorisation has been used. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.

(A) Level 1 - quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 1 principally includes exchange listed equities, mutual funds with quoted prices, exchange traded derivatives such as futures and options, and national government bonds unless there is evidence that trading in a given instrument is so infrequent that the market could not be considered active. It also includes other financial instruments where there is clear evidence that the period end valuation is based on a traded price in an active market.

- (B) Level 2 - inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 2 principally includes corporate bonds and other non-national government debt securities which are valued using observable inputs, together with over-the-counter derivatives such as forward exchange contracts and non-quoted investment funds valued with observable inputs. It also includes investment contract liabilities without discretionary participation features that are valued using observable inputs.

- (C) Level 3 - Significant inputs for the asset or liability are not based on observable market data (unobservable inputs)

Level 3 principally includes investments in private equity funds, directly held investment properties and investments in property funds which are exposed to bespoke properties or risks and investments which are internally valued or subject to a significant number of unobservable assumptions. It also includes debt securities which are rarely traded or traded only in privately negotiated transactions and hence where it is difficult to assert that their valuations have been based on observable market data.

27.2 Level 2 assets and liabilities

- (A) Valuation approach for level 2

A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing services or quotes from third-party brokers. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

Pricing services, where available, are used to obtain third-party broker quotes. Where pricing service providers are used, a single valuation is obtained and applied.

When prices are not available from pricing services, quotes are sourced directly from brokers. The Group seeks to obtain a number of quotes from different brokers so as to obtain the most comprehensive information available on their executability. Where quotes are sourced directly from brokers, the price used in the valuation is normally selected from one of the quotes based on a number of factors, including the timeliness and regularity of the quotes and the accuracy of the quotes considering the spreads provided. The selected quote is the one which best represents an executable quote for the security at the measurement date.

Generally, no adjustment is made to the prices obtained from independent third parties. Adjustment is made in only limited circumstances, where it is determined that the third-party valuations obtained do not reflect fair value (e.g. either because the value is stale and/or the values are extremely diverse in range). These are usually securities which are distressed or that could be subject to a debt restructure or where reliable market prices are no longer available due to an inactive market or market dislocation. In these instances, prices are derived using internal valuation techniques including those as described below with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take place between market participants on the measurement date. The techniques used require a number of assumptions relating to variables such as credit risk and interest rates. Examples of such variables include an average credit spread based on the corporate bond universe and the relevant duration of the asset being valued. The input assumptions are determined based on

the best available information at the measurement dates. Securities valued in such manner are classified as level 3 where the lowest level significant inputs are not based on observable market data.

Of the total level 2 debt securities of £71,074m at 30 June 2019 (31 December 2018: £70,851m; 31 December 2017: £74,475m; 31 December 2016: £72,994m), £10,092m were valued internally (31 December 2018: £9,566m; 31 December 2017: £9,369m; 31 December 2016: £8,002m). The majority of such securities were valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. This is the lowest level input that is significant to the measurement which is readily observable in the market and, therefore, is not subject to judgement.

27.3 Level 3 assets and liabilities

(A) Valuation approach for level 3

Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions e.g. market illiquidity. The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. When determining the inputs into the valuation techniques used, priority is given to publicly available prices from independent sources when available, but overall the source of pricing is chosen with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The fair value estimates are made at a specific point in time, based upon any available market information and judgements about the financial instruments, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such estimates do not reflect any premium or discount that could result from offering for sale at one time a significant volume of a particular financial instrument, nor do they consider the tax impact of the realisation of unrealised gains or losses from selling the financial instrument being fair valued. In some cases the disclosed value cannot be realised in immediate settlement of the financial instrument.

In accordance with the Group Risk Framework, the estimated fair value of derivative financial instruments valued internally using standard market practices are subject to assessment against external counterparties' valuations.

As at 30 June 2019, the Group held £25,977m of assets, net of liabilities, at fair value which were classified as level 3 within the fair value hierarchy (31 December 2018: £24,205m; 31 December 2017: £22,064m; 31 December 2016: £18,821m). This included £1,637m of loans (31 December 2018: £1,703m; 31 December 2017: £1,983m) and corresponding borrowings of £1,504m (31 December 2018: £1,606m; 31 December 2017: £1,887m) held by a subsidiary of the Group, attaching to a portfolio of buy-to-let mortgages and other loans financed largely by external third-party (non-recourse) borrowings (see Note 22 for further details). The Group's exposure is limited to the investments held by the WPSF, rather than to the individual loans and borrowings themselves. The fair value movements of these loans and borrowings have no effect on shareholders' profit and equity. The most significant non-

observable inputs to the mortgage fair value are the level of future defaults and prepayments by the mortgage holders.

The investment properties of the Group are externally valued by professionally qualified external valuers using the RICS valuation standards. An 'income capitalisation' technique is predominantly applied for these properties. This technique calculates the value through the yield and rental value depending on factors such as the lease length, building quality, covenant and location. The variables used are compared to recent transactions with similar features to those of the Group's investment properties. As the comparisons are not with properties that are virtually identical to the Group's investment properties, adjustments are made by the valuers where appropriate to the variables used. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of the properties.

(B) Analysis of internally valued level 3 financial instruments

Level 3 financial assets, net of financial liabilities, which were internally valued as at 30 June 2019 were £1,526m (31 December 2018: £1,387m; 31 December 2017: £1,751m; 31 December 2016: £547m), representing 1.0% of the total fair valued financial assets net of financial liabilities (31 December 2018: 0.9%; 31 December 2017: 1.1%; 31 December 2016: 0.4%).

Internal valuations are inherently more subjective than external valuations. Included within these internally valued net assets and liabilities are:

- Debt securities of £506m as at 30 June 2019 (31 December 2018: £582m; 31 December 2017: £500m; 31 December 2016: £422m), which were either valued on a discounted cash flow method with an internally developed discount rate or using other valuation methodologies including enterprise valuation and estimated recovery (such as liquidators reports).
- Private equity and venture capital investments in both debt and equity securities of £611m as at 30 June 2019 (31 December 2018: £511m; 31 December 2017: £248m; 31 December 2016: £954m) which were valued internally using discounted cash flows based on management information available for these investments. The significant unobservable inputs include the determination of expected future cash flows on the investments being valued, determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates. The valuation is performed in accordance with International Private Equity and Venture Capital Association Valuation guidelines. These investments were principally held by consolidated investment funds that are managed on behalf of third parties.
- Equity release mortgage loans of £1,742m as at 30 June 2019 (31 December 2018: £1,579m; 31 December 2017: £1,726m) and a corresponding liability of £379m (31 December 2018: £355m; 31 December 2017: £366m) which were valued internally using discounted cash flow models. The inputs that are significant to the valuation of these investments are primarily the economic assumptions, being the discount rate (risk-free rate plus a liquidity premium) and property values.

During 2017, the assumptions used within the discounted cash flow model used to value these loans were refined to reflect developing market practice, including considerations of the PRA's industry-wide review in this area and resulting guidance. This refinement incorporated inputs relevant to determining discount rates which are not market observable. As a result these loans and corresponding liability, which were previously classified as level 2 in the fair value hierarchy, were re-classified as level 3.

- Liabilities of £1,013m as at 30 June 2019 (31 December 2018: £948m; 31 December 2017: £439m; 31 December 2016: £925m) for the third party interest in consolidated funds in respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities were valued by reference to the underlying assets.

(C) Sensitivity of the fair value of level 3 instruments to changes in key assumptions

If the value of all of the level 3 internally valued net assets above held to support annuity and other long-term business decreased by 10%, the change in valuation as at 30 June 2019 would be £172m (31 December 2018: £154m; 31 December 2017: £169m; 31 December 2016: £28m), which would reduce shareholders' profit and equity by this amount before tax.

(D) Governance of level 3

The Group's valuation policies, procedures and analyses for instruments categorised as level 3 are overseen by internal valuation committees as part of the Group's wider financial reporting governance processes. The procedures undertaken include approval of valuation methodologies, verification processes, and resolution of significant or complex valuation issues. In undertaking these activities the Group makes use of the extensive expertise of its asset management function. In addition, the Group has minimum standards for independent price verification to ensure valuation accuracy is regularly independently verified. Adherence to this policy is monitored across the business units.

The tables that follow present an analysis of the Group's financial assets and investment property measured at fair value, net of derivative liabilities, by level of the fair value hierarchy for each component of business as set out in Note 28.

As at 30 June 2019

Analysis of assets measured at fair value, net of derivative liabilities

With-profits:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment property	—	—	16,550	16,550
Loans	—	—	1,637	1,637
Derivative assets	66	2,288	—	2,354
Equity securities and pooled investment funds	42,985	4,752	5,502	53,239
Debt securities	7,534	46,410	852	54,796
Total assets	50,585	53,450	24,541	128,576
Derivative liabilities	(60)	(1,407)	—	(1,467)
Total with-profits	50,525	52,043	24,541	127,109

Unit-linked:

Investment property	—	—	580	580
Derivative assets	2	—	—	2
Equity securities and pooled investment funds	13,050	940	17	14,007
Debt securities	1,818	6,909	—	8,727
Total assets	14,870	7,849	597	23,316
Derivative liabilities	(4)	(8)	—	(12)
Total unit-linked	14,866	7,841	597	23,304

Annuity and other long-term business:

Investment property	—	—	1,648	1,648
Loans	—	—	1,742	1,742
Derivative assets	—	527	—	527
Equity securities and pooled investment funds	2	—	2	4
Debt securities	3,555	17,722	337	21,614
Total assets	3,557	18,249	3,729	25,535
Derivative liabilities	—	(1,198)	—	(1,198)
Total annuity and other long-term business	3,557	17,051	3,729	24,337

Other:

Equity securities and pooled investment funds	216	—	18	234
Debt securities	4	33	—	37
Total other	220	33	18	271

Group total:

Investment property	—	—	18,778	18,778
Loans	—	—	3,379	3,379
Derivative assets	68	2,815	—	2,883
Equity securities and pooled investment funds	56,253	5,692	5,539	67,484
Debt securities	12,911	71,074	1,189	85,174
Total assets	69,232	79,581	28,885	177,698
Derivative liabilities	(64)	(2,613)	—	(2,677)
Total assets measured at fair value, net of derivative liabilities	69,168	76,968	28,885	175,021

As at 31 December 2018

Analysis of assets measured at fair value, net of derivative liabilities

With-profits:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment property	—	—	15,725	15,725
Loans	—	—	1,702	1,702
Derivative assets	57	1,900	—	1,957
Equity securities and pooled investment funds	38,149	4,977	4,707	47,833
Debt securities	8,375	44,619	805	53,799
Total assets	46,581	51,496	22,939	121,016
Derivative liabilities	(64)	(1,201)	—	(1,265)
Total with-profits	46,517	50,295	22,939	119,751

Unit-linked:

Investment property	—	—	618	618
Derivative assets	1	—	—	1
Equity securities and pooled investment funds	12,345	318	16	12,679
Debt securities	1,750	8,762	—	10,512
Total assets	14,096	9,080	634	23,810
Derivative liabilities	(1)	(2)	—	(3)
Total unit-linked	14,095	9,078	634	23,807

Annuity and other long-term business:

Investment property	—	—	1,660	1,660
Loans	—	—	1,579	1,579
Derivative assets	—	555	—	555
Equity securities and pooled investment funds	48	—	2	50
Debt securities	3,803	17,470	372	21,645
Total assets	3,851	18,025	3,613	25,489
Derivative liabilities	—	(939)	—	(939)
Total annuity and other long-term business	3,851	17,086	3,613	24,550

Other:

Equity securities and pooled investment funds	223	—	8	231
Total assets	223	—	8	231
Derivative liabilities	—	(1)	—	(1)
Total other	223	(1)	8	230

Group total:

Investment property	—	—	18,003	18,003
Loans	—	—	3,281	3,281
Derivative assets	58	2,455	—	2,513
Equity securities and pooled investment funds	50,765	5,295	4,733	60,793
Debt securities	13,928	70,851	1,177	85,956
Total assets	64,751	78,601	27,194	170,546
Derivative liabilities	(65)	(2,143)	—	(2,208)
Total assets measured at fair value, net of derivative liabilities	64,686	76,458	27,194	168,338

As at 31 December 2017

Analysis of assets measured at fair value, net of derivative liabilities

With-profits:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment property	—	—	14,272	14,272
Loans	—	—	1,982	1,982
Derivative assets	61	2,359	—	2,420
Equity securities and pooled investment funds	44,724	4,364	3,754	52,842
Debt securities	7,705	42,615	341	50,661
Total assets	52,490	49,338	20,349	122,177
Derivative liabilities	(67)	(557)	—	(624)
Total with-profits	52,423	48,781	20,349	121,553

Unit-linked:

Investment property	—	—	682	682
Derivative assets	7	1	—	8
Equity securities and pooled investment funds	15,071	292	18	15,381
Debt securities	2,249	4,462	—	6,711
Total assets	17,327	4,755	700	22,782
Derivative liabilities	—	(1)	—	(1)
Total unit-linked	17,327	4,754	700	22,781

Annuity and other long-term business:

Investment property	—	—	1,653	1,653
Loans	—	—	1,726	1,726
Derivative assets	1	525	—	526
Equity securities and pooled investment funds	121	—	—	121
Debt securities	7,632	27,398	305	35,335
Total assets	7,754	27,923	3,684	39,361
Derivative liabilities	—	(1,036)	—	(1,036)
Total annuity and other long-term business	7,754	26,887	3,684	38,325

Other:

Equity securities and pooled investment funds	119	—	24	143
Total other	119	—	24	143

Group total:

Investment property	—	—	16,607	16,607
Loans	—	—	3,708	3,708
Derivative assets	69	2,885	—	2,954
Equity securities and pooled investment funds	60,035	4,656	3,796	68,487
Debt securities	17,586	74,475	646	92,707
Total assets	77,690	82,016	24,757	184,463
Derivative liabilities	(67)	(1,594)	—	(1,661)
Total assets measured at fair value, net of derivative liabilities	77,623	80,422	24,757	182,802

As at 31 December 2016

Analysis of assets measured at fair value, net of derivative liabilities

With-profits:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment property	—	—	12,496	12,496
Loans	—	—	—	—
Derivative assets	54	2,334	—	2,388
Equity securities and pooled investment funds	36,788	3,423	4,021	44,232
Debt securities	7,322	40,931	683	48,936
Total assets	44,164	46,688	17,200	108,052
Derivative liabilities	(51)	(802)	—	(853)
Total with-profits	44,113	45,886	17,200	107,199

Unit-linked:

Investment property	—	—	661	661
Derivative assets	5	9	—	14
Equity securities and pooled investment funds	14,917	246	26	15,189
Debt securities	2,461	3,816	—	6,277
Total assets	17,383	4,071	687	22,141
Derivative liabilities	(4)	(19)	—	(23)
Total unit-linked	17,379	4,052	687	22,118

Annuity and other long-term business:

Investment property	—	—	1,583	1,583
Loans	—	1,706	—	1,706
Derivative assets	—	525	—	525
Equity securities and pooled investment funds	138	—	1	139
Debt securities	7,083	28,247	252	35,582
Total assets	7,221	30,478	1,836	39,535
Derivative liabilities	—	(985)	—	(985)
Total annuity and other long-term business	7,221	29,493	1,836	38,550

Other:

Equity securities and pooled investment funds	141	5	23	169
Total other	141	5	23	169

Group total:

Investment property	—	—	14,740	14,740
Loans	—	1,706	—	1,706
Derivative assets	59	2,868	—	2,927
Equity securities and pooled investment funds	51,984	3,674	4,071	59,729
Debt securities	16,866	72,994	935	90,795
Total assets	68,909	81,242	19,746	169,897
Derivative liabilities	(55)	(1,806)	—	(1,861)
Total assets measured at fair value, net of derivative liabilities	68,854	79,436	19,746	168,036

27.4 Fair value hierarchy for liabilities measured at fair value in the statement of financial position

The tables below present the Group's liabilities, excluding derivative liabilities, measured at fair value by level of the fair value hierarchy.

As at 30 June 2019	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	—	15,695	—	15,695
Third party interest in consolidated funds	4,826	3,189	1,025	9,040
Borrowings and subordinated liabilities	—	—	1,504	1,504
Accruals, deferred income and other liabilities	—	—	379	379
Total liabilities at fair value, excluding derivative liabilities	4,826	18,884	2,908	26,618

As at 31 December 2018	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	—	15,560	—	15,560
Third party interest in consolidated funds	5,700	2,655	1,028	9,383
Borrowings and subordinated liabilities	—	—	1,606	1,606
Accruals, deferred income and other liabilities	—	—	355	355
Total liabilities at fair value, excluding derivative liabilities	5,700	18,215	2,989	26,904

As at 31 December 2017	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	—	17,069	—	17,069
Third party interest in consolidated funds	3,303	1,896	439	5,638
Borrowings and subordinated liabilities	—	—	1,887	1,887
Accruals, deferred income and other liabilities	—	—	367	367
Total liabilities at fair value, excluding derivative liabilities	3,303	18,965	2,693	24,961

As at 31 December 2016	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	—	16,171	—	16,171
Third party interest in consolidated funds	3,543	1,566	925	6,034
Accruals, deferred income and other liabilities	—	384	—	384
Total liabilities at fair value, excluding derivative liabilities	3,543	18,121	925	22,589

27.5 Transfers between levels

The Group's policy is to recognise transfers into and transfers out of levels as at the end of each half year reporting period except for material transfers which are recognised as of the date of the event or change in circumstances that caused the transfer.

Transfers are deemed to have occurred when there is a material change in the observed valuation inputs or a change in the level of trading activities of the securities.

(A) Transfers between levels

For the six months
ended 30 June 2019

Financial assets and liabilities - Transfers between levels						
	Equity securities and pooled investment funds	Debt securities	Loans	Third party interest in consolidated funds	Other financial liabilities	Total
	£m	£m	£m	£m	£m	£m
From level 1 to level 2	—	104	—	—	—	104
From level 1 to level 3	19	—	—	—	—	19
From level 2 to level 1	—	1	—	—	—	1
From level 2 to level 3	58	—	—	—	—	58
From level 3 to level 2	—	118	—	—	—	118
	77	223	—	—	—	300

For the year ended 31
December 2018

Financial assets and liabilities - Transfers between levels						
	Equity securities and pooled investment funds	Debt securities	Loans	Third party interest in consolidated funds	Other financial liabilities	Total
	£m	£m	£m	£m	£m	£m
From level 1 to level 2	—	45	—	—	—	45
From level 1 to level 3	8	—	—	—	—	8
From level 2 to level 1	675	11	—	—	—	686
	683	56	—	—	—	739

For the year ended 31
December 2017

Financial assets and liabilities - Transfers between levels						
	Equity securities and pooled investment funds	Debt securities	Loans	Third party interest in consolidated funds	Other financial liabilities	Total
	£m	£m	£m	£m	£m	£m
From level 1 to level 2	—	19	—	—	—	19
From level 1 to level 3	2	—	—	—	—	2
From level 2 to level 1	230	—	—	—	—	230
From level 2 to level 3	—	—	1,726	—	385	2,111
From level 3 to level 2	69	22	—	—	—	91
	301	41	1,726	—	385	2,453

For the year ended 31
December 2016

Financial assets and liabilities - Transfers between levels						
	Equity securities and pooled investment funds	Debt securities	Loans	Third party interest in consolidated funds	Other financial liabilities	Total
	£m	£m	£m	£m	£m	£m
From level 1 to level 2	112	38	—	—	—	150
From level 1 to level 3	10	—	—	—	—	10
From level 2 to level 1	574	79	—	—	—	653
From level 2 to level 3	129	—	—	—	—	129
From level 3 to level 2	389	—	—	—	—	389
	1,214	117	—	—	—	1,331

(B) Reconciliation of movements in level 3 assets and liabilities

The movements in level 3 assets and liabilities held at fair value are analysed in the tables below.

2019	At 1 January	Total gains/(losses) in income statement	Foreign exchange	Purchases	Sales	Reclassified to held for sale	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 30 June
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Level 3 assets:											
Investment property	18,003	(246)	(91)	1,159	(46)	(1)	—	—	—	—	18,778
Loans	3,281	164	—	14	(80)	—	—	—	—	—	3,379
Derivative assets	—	—	—	—	—	—	—	—	—	—	—
Equity securities and pooled investment funds	4,733	529	—	590	(383)	—	(7)	—	77	—	5,539
Debt securities	1,177	59	(1)	90	(45)	—	(11)	38	—	(118)	1,189
Total level 3 assets	27,194	506	(92)	1,853	(554)	(1)	(18)	38	77	(118)	28,885
Level 3 liabilities:											
Third party interest in consolidated funds	1,028	27	—	—	—	—	(110)	80	—	—	1,025
Borrowings and subordinated liabilities	1,606	(22)	—	—	—	—	(80)	—	—	—	1,504
Derivative liabilities	—	—	—	—	—	—	—	—	—	—	—
Other financial liabilities	355	28	—	—	—	—	(4)	—	—	—	379
Total level 3 liabilities	2,989	33	—	—	—	—	(194)	80	—	—	2,908

2018	At 1 January	Total gains/(losses) in income statement	Foreign exchange	Purchases	Sales	Reclassified to held for sale	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 31 December
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Level 3 assets:											
Investment property	16,607	144	(52)	1,515	(211)	—	—	—	—	—	18,003
Loans	3,708	(206)	—	58	(121)	—	(158)	—	—	—	3,281
Derivative assets	—	—	—	—	—	—	—	—	—	—	—
Equity securities and pooled investment funds	3,796	386	77	1,134	(668)	—	—	—	8	—	4,733
Debt securities	646	(8)	1	661	(123)	—	—	—	—	—	1,177
Total level 3 assets	24,757	316	26	3,368	(1,123)	—	(158)	—	8	—	27,194
Level 3 liabilities:											
Third party interest in consolidated funds	439	(73)	6	—	—	—	(57)	713	—	—	1,028
Borrowings and subordinated liabilities	1,887	23	—	—	—	—	(304)	—	—	—	1,606
Derivative liabilities	—	—	—	—	—	—	—	—	—	—	—
Other financial liabilities	367	(6)	—	—	—	—	(6)	—	—	—	355
Total level 3 liabilities	2,693	(56)	6	—	—	—	(367)	713	—	—	2,989

2017	At 1 January	Total gains/(losses) in income statement	Foreign exchange	Purchases	Sales	Reclassified to held for sale	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 31 December
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Level 3 assets:											
Investment property	14,740	561	(20)	2,038	(712)	—	—	—	—	—	16,607
Loans	—	20	—	2,115	—	—	(153)	—	1,726	—	3,708
Derivative assets	—	—	—	—	—	—	—	—	—	—	—
Equity securities and pooled investment funds	4,071	152	(50)	736	(1,040)	—	(6)	—	2	(69)	3,796
Debt securities	935	50	(11)	215	(521)	—	—	—	—	(22)	646
Total level 3 assets	19,746	783	(81)	5,104	(2,273)	—	(159)	—	1,728	(91)	24,757
Level 3 liabilities:											
Third party interest in consolidated funds	925	559	—	—	—	—	(1,275)	230	—	—	439
Borrowings and subordinated liabilities	—	13	—	—	—	—	(115)	1,989	—	—	1,887
Derivative liabilities	—	—	—	—	—	—	—	—	—	—	—
Other financial liabilities	—	(12)	—	—	—	—	(6)	—	385	—	367
Total level 3 liabilities	925	560	—	—	—	—	(1,396)	2,219	385	—	2,693

2016	At 1 January	Total gains/(losses) in income statement	Foreign exchange	Purchases	Sales	Reclassified to held for sale	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 31 December
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Level 3 assets:											
Investment property	13,539	378	95	1,647	(878)	(41)	—	—	—	—	14,740
Loans	—	—	—	—	—	—	—	—	—	—	—
Derivative assets	—	—	—	—	—	—	—	—	—	—	—
Equity securities and pooled investment funds	3,931	515	237	644	(996)	—	(9)	—	138	(389)	4,071
Debt securities	728	81	6	185	(65)	—	—	—	—	—	935
Total level 3 assets	18,198	974	338	2,476	(1,939)	(41)	(9)	—	138	(389)	19,746
Level 3 liabilities:											
Third party interest in consolidated funds	1,034	18	—	—	—	—	(271)	144	—	—	925
Borrowings and subordinated liabilities	—	—	—	—	—	—	—	—	—	—	—
Derivative liabilities	—	—	—	—	—	—	—	—	—	—	—
Other financial liabilities	—	—	—	—	—	—	—	—	—	—	—
Total level 3 liabilities	1,034	18	—	—	—	—	(271)	144	—	—	925

(C) Gains and losses in respect of level 3 assets and liabilities

Of the total gains and losses recognised in the income statement in respect of assets and liabilities classified as level 3 for the six months ended 30 June 2019, £399m (30 June 2018: £94m; for the year ended 31 December 2018: £353m; 31 December 2017: £417m; 31 December 2016: £720m) related to unrealised gains on assets and liabilities classified as level 3 which were still held at the end of the period. The unrealised gains can be further analysed as follows:

	For the six months ended 30 June		For the year ended 31 December		
	2019	Unaudited 2018	2018	2017	2016
	£m	£m	£m	£m	£m
Investment property	(267)	—	193	508	414
Loans	164	(45)	(196)	20	—
Equity securities and pooled investment funds	514	133	318	18	253
Debt securities	21	(9)	(18)	(5)	71
Third party interest in consolidated funds	(27)	20	73	(123)	(18)
Borrowings and subordinated liabilities	22	(2)	(23)	(13)	—
Other financial liabilities	(28)	(3)	6	12	—
Total	399	94	353	417	720

27.6 Fair value of assets and liabilities at amortised cost

The tables below show the assets and liabilities carried at amortised cost on the statement of financial position for which fair value is disclosed. The assets and liabilities that are carried at amortised cost, where the carrying value approximates the fair value, are excluded from the analysis below.

As at 30 June 2019					
	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	£m	£m	£m	£m	£m
Assets					
Loans	—	1,748	962	2,710	2,618
Liabilities					
Borrowings and subordinated liabilities	—	2,091	81	2,172	2,208
As at 31 December 2018					
	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	£m	£m	£m	£m	£m
Assets					
Loans	—	1,620	1,077	2,697	2,628
Liabilities					
Borrowings and subordinated liabilities	—	2,376	73	2,449	2,449

As at 31 December 2017					
	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	£m	£m	£m	£m	£m
Assets					
Loans	—	1,570	1,258	2,828	2,737
Liabilities					
Borrowings and subordinated liabilities	—	1,919	75	1,994	1,990
As at 31 December 2016					
	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	£m	£m	£m	£m	£m
Assets					
Loans	—	1,472	970	2,442	2,352
Liabilities					
Borrowings and subordinated liabilities	—	1,378	136	1,514	1,507

The fair value of the assets and liabilities in the tables above have been estimated from the discounted cash flows expected to be received or paid. Where appropriate, an observable market interest rate has been used and the assets and liabilities are classified within level 2 where this is the lowest level input significant to the entire measurement. Otherwise, they are included as level 3 assets or liabilities.

28. Risk management and sensitivity analysis

28.1 Risk overview

The Group's business involves the acceptance and management of risk. The Group's risk management process is governed by the Group Risk Framework. The Group Risk Framework has been designed to identify, assess, measure, manage, monitor and report on the principal risks of the Group. Risk management is designed to increase the Group's understanding of the risks inherent in the business, improve decision-making and prevent the Group from failing to achieve its business objective, including delivery of fair customer outcomes.

The Group Risk Framework is codified through risk policies and business standards which set out the management framework for key risk types, including risk appetite, and minimum standards for the Group's operations. To ensure completeness and consistency when comparing risk information across the Group, a common methodology for categorising risk has been adopted.

Risk appetite is the amount and type of risk that is acceptable to the Group, as determined by the Board, and is a function of the Group's strategic and business objectives and its capital resources. Risk appetite therefore refers to the Group's attitude towards risk-taking and whether it is willing and able to tolerate either a high or a low level to specific risks or risk groups. As a result, risk appetite has a central role in informing decision-making across the Group and assisting in the optimisation of return on capital invested.

A number of risk factors affect the Group's results and financial position. The financial risk categories affecting the Group's financial instruments and insurance assets and liabilities are set out below:

Risk Type	Definition
Market risk	The risk of loss or adverse change in the financial situation of the business, or that of the Group's customers and clients resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.
Credit risk	The risk of loss or adverse change in the financial situation of the business, or that of the Group's customers and clients, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (e.g. downgrade or spread widening).
Demographic risk	The risk of loss for the Group, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of a number of demographic risk drivers. These include: • Mortality/longevity risk: the risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from adverse mortality and/or longevity experience than estimated within pricing, underwriting and valuation. • Morbidity risk: the risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from adverse morbidity experience than estimated within pricing, underwriting and valuation. • Persistency risk: the risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from an adverse persistency experience than estimated within pricing and valuation.
Expense and margin pricing risk	The risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from adverse experience in expenses relative to those estimated within pricing and valuation when considering insurance contracts or funds under management.
Treasury liquidity risk	The risk of loss for the Group's business, or of adverse changes in the financial situation, resulting from the Group's inability to generate sufficient cash resources to meet financial obligations (e.g. claims, creditors and planned dividends) as they fall due.

The Group's exposure to risks arising from financial instruments and insurance assets and liabilities is different for each component of the Group's business. The Group's combined statement of financial position is presented on the following page for the different components of business.

Analysis of Segment Statement of Financial Position by Business Type

As at 30 June 2019

	Shareholder-backed funds				
	With-profits	Unit-linked	Annuity and other long-term business	Other	Total
	£m	£m	£m	£m	£m
Assets					
Goodwill and intangible assets	249	—	20	1,153	1,422
Deferred acquisition costs	—	—	90	17	107
Investment in joint ventures and associates accounted for using the equity method	566	—	—	39	605
Property, plant and equipment	968	—	46	369	1,383
Investment property	16,550	580	1,648	—	18,778
Defined benefit pension asset	36	—	—	15	51
Deferred tax assets	58	—	35	17	110
Reinsurance assets	1,136	119	1,435	—	2,690
Loans	3,756	—	2,241	—	5,997
Derivative assets	2,354	2	527	—	2,883
Equity securities and pooled investment funds	53,239	14,007	4	234	67,484
Deposits	13,421	1,235	2,135	1	16,792
Debt securities	54,796	8,727	21,614	37	85,174
Current tax assets	215	—	44	12	271
Accrued investment income and other debtors	1,725	593	485	346	3,149
Assets held for sale	6	—	10,164	—	10,170
Cash and cash equivalents	3,310	169	740	405	4,624
Total assets	152,385	25,432	41,228	2,645	221,690
Invested capital	—	—	6,465	2,033	8,498
Total invested capital	—	—	6,465	2,033	8,498
Insurance contract liabilities	50,217	5,532	20,649	—	76,398
Investment contract liabilities with discretionary participation features	67,331	—	29	—	67,360
Investment contract liabilities without discretionary participation features	2	15,640	53	—	15,695
Unallocated surplus of with-profits fund	15,810	—	—	—	15,810
Third party interest in consolidated funds	5,315	3,700	7	18	9,040
Borrowings and subordinated liabilities	3,580	4	128	—	3,712
Defined benefit pension liability	15	—	23	82	120
Lease liabilities	17	—	9	297	323
Deferred tax liabilities	995	—	160	32	1,187
Current tax liabilities	292	36	64	35	427
Derivative liabilities	1,467	12	1,198	—	2,677
Other financial liabilities	2,515	—	208	—	2,723
Provisions	6	—	302	108	416
Accruals, deferred income and other liabilities	4,823	508	1,769	40	7,140
Liabilities held for sale	—	—	10,164	—	10,164
Total liabilities	152,385	25,432	34,763	612	213,192
Total equity and liabilities	152,385	25,432	41,228	2,645	221,690

As at 31 December 2018

	Shareholder-backed funds				Total
	With-profits	Unit-linked	Annuity and other long-term business	Other	
Assets	£m	£m	£m	£m	£m
Goodwill and intangible assets	285	—	7	1,154	1,446
Deferred acquisition costs	—	—	87	18	105
Investment in joint ventures and associates accounted for using the equity method	705	—	—	37	742
Property, plant and equipment	869	—	49	347	1,265
Investment property	15,725	618	1,660	—	18,003
Defined benefit pension asset	162	—	—	—	162
Deferred tax assets	62	—	36	20	118
Reinsurance assets	1,131	115	1,566	—	2,812
Loans	3,852	—	2,057	—	5,909
Derivative assets	1,957	1	555	—	2,513
Equity securities and pooled investment funds	47,833	12,679	50	231	60,793
Deposits	10,117	1,138	765	—	12,020
Debt securities	53,799	10,512	21,645	—	85,956
Current tax assets	58	6	166	6	236
Accrued investment income and other debtors	1,721	499	1,011	875	4,106
Assets held for sale	10	—	10,568	—	10,578
Cash and cash equivalents	3,519	190	669	361	4,739
Total assets	141,805	25,758	40,891	3,049	211,503
Invested capital	—	—	6,625	2,174	8,799
Total invested capital	—	—	6,625	2,174	8,799
Liabilities					
Insurance contract liabilities	43,775	5,219	20,304	—	69,298
Investment contract liabilities with discretionary participation features	67,018	—	20	—	67,038
Investment contract liabilities without discretionary participation features	2	15,498	60	—	15,560
Unallocated surplus of with-profits funds	13,433	—	—	—	13,433
Third party interest in consolidated fund	4,678	4,684	21	—	9,383
Borrowings and subordinated liabilities	3,949	4	102	—	4,055
Defined benefit pension liability	32	—	48	93	173
Lease liabilities	20	—	12	284	316
Deferred tax liabilities	892	—	147	22	1,061
Current tax liabilities	29	—	188	28	245
Derivative liabilities	1,265	3	939	1	2,208
Other financial liabilities	2,367	—	225	—	2,592
Provisions	—	—	377	135	512
Accruals, deferred income and other liabilities	4,345	350	1,255	312	6,262
Liabilities held for sale	—	—	10,568	—	10,568
Total liabilities	141,805	25,758	34,266	875	202,704
Total equity and liabilities	141,805	25,758	40,891	3,049	211,503

As at 31 December 2017

	Shareholder-backed funds				Total
	With-profits	Unit-linked	Annuity and other long-term business	Other	
	£m	£m	£m	£m	£m
Assets					
Goodwill and intangible assets	148	—	19	1,154	1,321
Deferred acquisition costs	—	—	84	6	90
Investment in joint ventures and associates accounted for using the equity method	464	—	—	40	504
Property, plant and equipment	365	—	35	4	404
Investment property	14,272	682	1,653	—	16,607
Defined benefit pension asset	165	—	—	—	165
Deferred tax assets	71	—	52	23	146
Reinsurance assets	1,269	133	1,119	—	2,521
Loans	4,268	—	2,177	—	6,445
Derivative assets	2,420	8	526	—	2,954
Equity securities and pooled investment funds	52,842	15,381	121	143	68,487
Deposits	7,679	1,138	1,233	—	10,050
Debt securities	50,661	6,711	35,335	—	92,707
Current tax assets	63	—	174	—	237
Accrued investment income and other debtors	1,316	182	1,171	841	3,510
Assets held for sale	37	—	—	—	37
Cash and cash equivalents	4,096	693	576	434	5,799
Total assets	140,136	24,928	44,275	2,645	211,984
Invested capital	—	—	6,454	1,901	8,355
Total invested capital	—	—	6,454	1,901	8,355
Liabilities					
Insurance contract liabilities	48,894	6,097	33,632	—	88,623
Investment contract liabilities with discretionary participation features	62,323	—	17	—	62,340
Investment contract liabilities without discretionary participation features	5	17,048	16	—	17,069
Unallocated surplus of with-profits fund	13,567	—	—	—	13,567
Third party interest in consolidated funds	3,764	1,667	207	—	5,638
Borrowings and subordinated liabilities	3,729	4	123	21	3,877
Defined benefit pension liability	55	—	82	42	179
Lease liabilities	—	—	—	—	—
Deferred tax liabilities	1,410	—	274	19	1,703
Current tax liabilities	119	76	58	46	299
Derivative liabilities	624	1	1,036	—	1,661
Other financial liabilities	2,645	—	610	—	3,255
Provisions	—	—	385	161	546
Accruals, deferred income and other liabilities	3,001	35	1,381	455	4,872
Total liabilities	140,136	24,928	37,821	744	203,629
Total equity and liabilities	140,136	24,928	44,275	2,645	211,984

As at 31 December 2016

	Shareholder-backed funds				Total
	With-profits	Unit-linked	Annuity and other long-term business	Other	
	£m	£m	£m	£m	£m
Assets					
Goodwill and intangible assets	226	—	19	1,153	1,398
Deferred acquisition costs	—	—	81	8	89
Investment in joint ventures and associates accounted for using the equity method	409	—	—	39	448
Property, plant and equipment	228	—	38	5	271
Investment property	12,496	661	1,583	—	14,740
Defined benefit pension asset	111	—	—	—	111
Deferred tax assets	82	—	66	22	170
Reinsurance assets	1,351	134	1,104	—	2,589
Loans	1,892	—	2,166	—	4,058
Derivative assets	2,388	14	525	—	2,927
Equity securities and pooled investment funds	44,232	15,189	139	169	59,729
Deposits	8,549	1,009	1,232	—	10,790
Debt securities	48,936	6,277	35,582	—	90,795
Current tax assets	1	—	281	25	307
Accrued investment income and other debtors	1,565	423	1,304	804	4,096
Assets held for sale	726	—	—	—	726
Cash and cash equivalents	3,209	694	806	347	5,056
Total assets	126,401	24,401	44,926	2,572	198,300
Invested capital	—	—	6,071	1,820	7,891
Total invested capital	—	—	6,071	1,820	7,891
Liabilities					
Insurance contract liabilities	49,001	6,029	34,434	—	89,464
Investment contract liabilities with discretionary participation features	52,477	—	13	—	52,490
Investment contract liabilities without discretionary participation features	17	16,091	63	—	16,171
Unallocated surplus of with-profits fund	11,738	—	—	—	11,738
Third party interest in consolidated funds	3,915	2,104	15	—	6,034
Borrowings and subordinated liabilities	1,341	4	162	—	1,507
Defined benefit pension liability	95	—	142	50	287
Lease liabilities	—	—	—	—	—
Deferred tax liabilities	1,278	—	298	15	1,591
Current tax liabilities	90	59	333	64	546
Derivative liabilities	853	23	985	—	1,861
Other financial liabilities	2,529	—	740	—	3,269
Provisions	—	—	190	155	345
Accruals, deferred income and other liabilities	2,532	91	1,480	468	4,571
Liabilities held for sale	535	—	—	—	535
Total liabilities	126,401	24,401	38,855	752	190,409
Total equity and liabilities	126,401	24,401	44,926	2,572	198,300

The financial assets and liabilities attaching to the Group's business are, to varying degrees, subject to the risks described previously and these risks may have a material effect on profit or loss and shareholders' equity. This is discussed below by component of business.

(A) With-profits business

The with-profits statement of financial position includes SAIF which, as at 30 June 2019, had total assets and liabilities of £4,887m (31 December 2018: £4,844m; 31 December 2017: £5,768m; 31 December 2016: £6,102m), and also asset and liabilities in respect of the DCPSF. The WPSF mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). As at 30 June 2019, the WPSF includes £9,529m (31 December 2018: £9,533m; 31 December 2017: £10,609m; 31 December 2016: £11,153m) of non-profit annuity liabilities.

(i) The Prudential Assurance Company WPSF business

The shareholder exposure to the WPSF business (including non-profit annuity business of the WPSF) is only sensitive to market and credit risk through the indirect effect of investment performance on declared policyholder bonuses. The investment assets of the with-profits fund are subject to market and credit risk. Changes in their carrying value, net of related changes to asset-share liabilities of with-profits contracts, affect the level of unallocated surplus of the fund. Therefore, the level of unallocated surplus is particularly sensitive to the level of investment returns on the portion of the assets that represents surplus. However, as unallocated surplus is accounted for as a liability under IFRS 4, movements in its value do not affect shareholders' profit and equity, so the shareholder is not directly exposed to changes in the assets and liabilities within the with-profits fund.

The shareholder's interest in the WPSF is one-ninth of the cost of bonuses declared to with-profits policyholders. For certain with-profits contracts, such as those invested in the PruFund range of funds, the bonuses represent the policyholders' net return based on the smoothed unit price of the selected investment fund. Investment performance is a key driver of bonuses declared, and hence the shareholder results. Due to the 'smoothed' basis of bonus declaration, the sensitivity to short-term investment performance and other insurance risks is relatively low. However, long-term investment performance and persistency trends may affect future shareholder transfers.

The equity risk relating to the future shareholder transfers from the WPSF is partially hedged, and this is described in Note 28.6(A).

(ii) DCPSF business

The DCPSF is shown as part of the with-profits statement of financial position. For similar reasons to the WPSF, shareholders are not directly exposed to the movements in the assets and liabilities. Instead, the shareholders' exposure is through the charges arising on the business less the expenses incurred. The charges incurred on the business are dependent on the value of the funds under management and are therefore indirectly exposed to market risk, credit risk and persistency risk.

(iii) SAIF business

SAIF is a ring-fenced fund, shown as part of the with-profits statement of financial position in which, apart from asset management fees, shareholders have no entitlement to the profit of the fund. Accordingly, the Group's profit and shareholders' funds are not sensitive to the direct effects of risk attaching to SAIF's assets and liabilities.

(B) Unit-linked business

Unit-linked business represents a comparatively small proportion of the in-force business of the Group's insurance operations. Due to policyholder liabilities moving in line with attaching asset value movements, the unit-linked business is not directly affected by market or credit risk. Profits from unit-linked contracts primarily arise from the excess of charges to policyholders for management of assets, over expenses incurred. The charges incurred are most sensitive to the movement in funds under management due to investment performance, as well as lapse and timing of death. The accounting impact of the expenses incurred is dependent upon the amortisation of acquisition costs in line with the emergence of margins (for insurance contracts) and amortisation in line with service provision (for the investment management component of investment contracts). By virtue of the design features of most of the contracts which provide low levels of mortality cover, the profit is relatively insensitive to changes in mortality experience. Amounts under unit-linked contracts are generally repayable on demand and the Group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit-linked policyholders to be met as they fall due.

In the combined statement of financial position, the unit-linked business is shown as having no contribution to shareholders' equity, this is because the surplus assets of the unit-linked business have been allocated to the 'annuity and other long-term business' component for presentation purposes, as they are pooled with the surplus assets of this business. Despite this presentation, the shareholder is exposed to the risks from unit-linked business as described above.

(C) Annuity and other long-term business

The Group's shareholder-backed annuity liabilities are exposed to market movements, but these are closely matched with covering assets of an appropriate duration. The level of matching from period to period can vary depending on management actions and economic factors and therefore it is possible for a degree of mis-matching exposure to arise. Aside from the extent of any asset/liability duration mismatch, the sensitivity of the Group's shareholder-backed fund's annuity business' results to market risk for movements in the value of liabilities net of movements in covering assets is broadly neutral. However, the assets held in excess of the liabilities, which back the capital requirements of the annuity business, result in exposure to market risk, as there are no offsetting liabilities. These assets are primarily debt securities.

The shareholder is directly exposed to credit risk (asset default, downgrade, and spread widening) arising on the assets held within the shareholder-backed funds, and the corresponding impact on the measurement of the liabilities.

The shareholder-backed annuity results are particularly sensitive to changes in assumptions about future mortality improvements which impact the measurement of the liabilities, and also to the variance between actual and expected mortality experience each year. The results are also sensitive to changes in maintenance expense levels over the longer term.

The assets and liabilities of the other long-term business, which includes legacy protection business, are not significant in the context of the Group's financial assets and liabilities and therefore do not contribute significantly to the Group's risk exposure.

(D) Other

This includes the financial assets and liabilities of the Group's asset management business. The Group is exposed to market and credit risk in respect of financial assets held by the 'other' business component, although this direct exposure to market and credit risk is not significant to the results of the Group.

The ongoing profit arising from the asset management business is exposed to the risk that changes in market prices, such as foreign exchange rates, interest rates, equity prices and property will affect income earned from investment management activities. The profit arising from this business is also sensitive to the level of net flows, and also to the level of expenses.

28.2 Market risk

Market risk is the risk of loss or adverse change in the financial situation of the Group's business or that of the Group's customers and clients resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.

Market risk comprises six types of risk, namely:

- interest rate risk: fluctuations in the level and volatility of interest rates or the shape or curvature of the yield curve or spread relationships;
- inflation risk: fluctuations in actual or implied inflation rates;
- equity risk: fluctuations in the level or volatility of equity investments;
- property risk: fluctuations in the level or volatility of property investments;
- currency risk: fluctuations, including translation risk, in the level or volatility of currency exposures; and
- alternative investments risk: fluctuations in the level or volatility of alternative investment exposures (other than those detailed above).

The primary market risks that the Group faces are equity risk, property risk, and interest rate risk because most assets are investments that are either equity type investments and subject to equity price risk, or bonds, mortgages and cash deposits, the values of which are subject to interest rate risk. Alternative investments may exhibit some or all of these risks depending on the type of investment. The amount of risk borne by the Group's shareholders depends on the extent to which its customers share the investment risk through the structure of the Group's products. In particular, the shareholder is only directly exposed to market risk on the assets held within the 'annuities and other long-term business' and 'other' components of the statement of financial position, which are predominantly debt securities and investment properties in respect of the annuity funds.

The split of the Group's investments between equity investments and interest-sensitive instruments depends principally on the type of liabilities supported by those investments and the amount of capital the Group has available. This mix of liabilities allows the Group to invest a substantial portion of its investment funds in equity and property investments that the Group believes produce greater returns over the long term.

(A) Interest rate risk

The majority of the Group's interest rate exposure arises from shareholder-backed annuities. The liabilities are exposed to interest rate movements, but these are closely matched with assets of an appropriate duration. The level of matching from period to period can vary depending on management actions and economic factors and therefore it is possible for a degree of mismatching exposure to arise. In addition, the assets held in excess of the liabilities, which back the capital requirements of the annuity business, result in an exposure to interest rate risk, as there are no offsetting liabilities.

The assets and liabilities for the with-profits business component are sensitive to interest rates, but as described in Note 28.1 the shareholder is not directly exposed to movements in these assets and liabilities.

The liabilities for the unit-linked business component are sensitive to interest rates, but as these move in line with the underlying assets there is no direct exposure to the shareholder.

The estimated sensitivity of profit to a movement in interest rates of 1% and 2% are as follows. The majority of this impact arises from the shareholder-backed annuities. These results do not include the impact from the 'other' component of business, but the exposure to interest rate risk from this component is not significant in the context of the Group.

As at 30 June 2019				
	Decrease of 2% £m	Decrease of 1% £m	Increase of 1% £m	Increase of 2% £m
Carrying value of debt securities and derivatives	7,382	3,323	(2,798)	(5,205)
Policyholder liabilities	(4,956)	(2,239)	1,864	3,431
Related deferred tax effects	(414)	(183)	155	291
Net sensitivity of profit after tax and shareholders' equity	2,012	901	(779)	(1,483)

As at 31 December 2018				
	Decrease of 2% £m	Decrease of 1% £m	Increase of 1% £m	Increase of 2% £m
Carrying value of debt securities and derivatives	7,369	3,317	(2,792)	(5,193)
Policyholder liabilities	(4,784)	(2,162)	1,801	3,317
Related deferred tax effects	(446)	(199)	171	323
Net sensitivity of profit after tax and shareholders' equity	2,139	956	(820)	(1,553)

As at 31 December 2017				
	Decrease of 2% £m	Decrease of 1% £m	Increase of 1% £m	Increase of 2% £m
Carrying value of debt securities and derivatives	13,497	5,805	(4,659)	(8,541)
Policyholder liabilities	(9,426)	(4,210)	3,443	6,295
Related deferred tax effects	(658)	(254)	190	348
Net sensitivity of profit after tax and shareholders' equity	3,413	1,341	(1,026)	(1,898)

	As at 31 December 2016			
	Decrease of 2% £m	Decrease of 1% £m	Increase of 1% £m	Increase of 2% £m
Carrying value of debt securities and derivatives	12,353	5,508	(4,527)	(8,313)
Policyholder liabilities	(10,023)	(4,466)	3,636	6,635
Related deferred tax effects	(396)	(177)	151	285
Net sensitivity of profit after tax and shareholders' equity	1,934	865	(740)	(1,393)

Inflation risk primarily arises from certain annuity contracts that have benefit escalation linked to a price index. The Group manages this exposure by matching inflation-linked annuity liabilities with corresponding inflation-linked assets.

(B) Equity and property risk

While the Group holds significant amounts of equity and property assets on its statement of financial position, the direct exposure to equity and property risk for the with-profits and unit-linked business is minimal. Instead, the Group's direct exposure to this risk arises from the 'annuities and other long-term business' component's holdings in equity securities and property, which are not hedged or matched by corresponding liabilities.

Excluding any longer term, indirect effects on profit due to the impact of policyholder bonuses on with-profits business and charges levied on unit-linked and asset management business, a fall in the fair value of these investments would have given rise to the following effects on pre-tax profit, profit after tax, and shareholders' equity. These results exclude the impact from the 'other' component of business, but the direct exposure on the statement of financial position from this business is not significant in the context of the Group. The majority of the sensitivity arises in respect of property assets held in the annuity funds.

	For the six months ended 30 June 2019		For the year ended 31 December					
	Decrease of 20% £m	Decrease of 10% £m	Decrease of 20% £m	Decrease of 10% £m	Decrease of 20% £m	Decrease of 10% £m	Decrease of 20% £m	Decrease of 10% £m
Pre-tax profit	(330)	(165)	(342)	(171)	(354)	(177)	(344)	(172)
Related deferred tax effects	56	28	58	29	60	30	70	35
Net sensitivity of profit after tax and shareholders' equity	(274)	(137)	(284)	(142)	(294)	(147)	(274)	(137)

A 10% or 20% increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above. The market risk sensitivities shown above reflect the impact of temporary market movements.

In the equity risk sensitivity analysis shown above, the Group has considered the impact of an instantaneous 20% fall in equity markets. If equity markets were to fall by more than 20%, the Group believes that this would not be an instantaneous fall but rather this would be expected to occur over a period of time during which the Group would be able to put in place mitigating management actions.

As noted above, the analysis excludes the indirect exposure of ongoing profit to equity and property risk through the impact on policyholder bonuses on with-profits business and charges levied on unit-linked and asset management business. For with-profits business, the impact of market risk is reduced due to

the 'smoothed' basis of bonus declaration, so the sensitivity to short-term investment performance is relatively low. However, long-term investment performance may affect future shareholder transfers. The Group has entered into a partial equity hedge of the shareholder transfers expected to emerge from the WPSF in order to mitigate this risk. The impact of these equity hedges is not allowed for in the above sensitivities, as the offsetting impact from the shareholder transfers occurs over the longer term. The impact of the sensitivities allowing for the equity hedges is shown below.

	For the six months ended 30 June 2019		For the year ended 31 December					
	2019		2018		2017		2016	
	Decrease of 20% £m	Decrease of 10% £m	Decrease of 20% £m	Decrease of 10% £m	Decrease of 20% £m	Decrease of 10% £m	Decrease of 20% £m	Decrease of 10% £m
Pre-tax profit	16	8	(35)	(19)	(8)	(6)	(16)	(12)
Related deferred tax effects	(3)	(1)	6	3	1	1	3	3
Net sensitivity of profit after tax and shareholders' equity	13	7	(29)	(16)	(7)	(5)	(13)	(9)

(C) Currency risk

The Group invests significant amounts of policyholder funds in overseas assets as part of its investment strategy. The direct currency risk exposure to the shareholder from the with-profits and unit-linked business components is minimal. Currency risk exposure arising from overseas assets held by the shareholder-backed annuity and other long-term business is mitigated through the use of derivatives.

As at 30 June 2019, the Group held 39% (31 December 2018: 38%; 31 December 2017: 35%; 31 December 2016: 34%) and 10% (31 December 2018: 9%; 31 December 2017: 10%; 31 December 2016: 11%) of its financial assets and financial liabilities respectively, in currencies, mainly US Dollar and Euro, other than Pounds Sterling, the functional currency of the Group.

Of these financial assets, as at 30 June 2019, 90% (31 December 2018: 87%; 31 December 2017: 88%; 31 December 2016: 85%) are held by the with-profits fund, allowing the fund to obtain exposure to foreign equity markets. Of these financial liabilities, 64% (31 December 2018: 62%; 31 December 2017: 69%; 31 December 2016: 66%) are held by the with-profits fund, mainly relating to foreign currency borrowings. The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts.

For the six months ended 30 June 2019, exchange gains of £14m (for the year ended 31 December 2018: gains of £70m; 31 December 2017: losses of £20m; 31 December 2016: gains of £195m) were recognised in the combined income statement; mainly arising on investments held by the with-profits fund. This excludes exchange gains and losses arising on financial instruments measured at FVTPL which are included in investment return. The majority of this movement is offset by changes in with-profits and unit-linked liabilities and changes in the fair value of derivatives attributable to foreign exchange rates recognised in the combined income statement.

The Group is also exposed to structural currency translation risk as a result of overseas operations which contribute to equity. The assets and liabilities of foreign operations are translated into the Group's presentational currency, Pounds Sterling. Foreign exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

28.3 Credit risk

The Group's exposure to credit risk primarily arises from the annuity funds which hold investments on which a certain level of defaults and downgrades are expected. For the shareholder-backed annuity business, a decrease in credit default and downgrade assumptions of five basis points would increase pre-tax profit for the six months ended 30 June 2019 by £101m (for the year ended 31 December 2018: £99m; 31 December 2017: £198m; 31 December 2016: £200m).

While the with-profits and unit-linked funds have large holdings of assets subject to credit risk, the shareholder results of the Group are not directly exposed to credit defaults on assets held in these components. The direct exposure of the Group's shareholder's equity to credit default risk in the 'Other' component of the business is small in the context of the Group. However, the shareholder is indirectly exposed to credit risk on these components through lower shareholder transfers in respect of the with-profits business and lower charges levied in respect of 'unit-linked' and 'other' components of the business.

(A) Debt securities

Debt securities are analysed below by component of business according to external credit ratings issued, with equivalent ratings issued by different ratings agencies grouped together. Standard & Poor's ratings have been used where available. For securities where Standard & Poor's ratings are not immediately available those produced by Moody's and then Fitch have been used as an alternative.

As at 30 June 2019	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits	5,401	8,488	13,446	15,641	2,824	8,996	54,796
Unit-linked	762	2,066	1,744	2,933	875	347	8,727
Annuity and other long-term business	2,790	6,115	4,615	1,654	176	6,264	21,614
Other	1	—	—	1	35	—	37
Total debt securities	8,770	16,628	20,020	19,745	3,970	16,041	85,174

As at 31 December 2018	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits	6,890	9,332	11,779	14,712	2,892	8,194	53,799
Unit-linked	1,041	2,459	2,215	3,502	395	900	10,512
Annuity and other long-term business	3,007	6,413	4,651	1,514	158	5,902	21,645
Total debt securities	10,938	18,204	18,645	19,728	3,445	14,996	85,956

As at 31 December 2017	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits	6,492	9,378	11,666	12,857	2,877	7,391	50,661
Unit-linked	670	2,732	1,308	1,792	91	118	6,711
Annuity and other long-term business	5,118	11,005	9,625	3,267	258	6,062	35,335
Total debt securities	12,280	23,115	22,599	17,916	3,226	13,571	92,707

As at 31 December 2016	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits	5,738	9,747	10,678	12,799	3,290	6,684	48,936
Unit-linked	461	2,660	1,157	1,699	213	87	6,277
Annuity and other long-term business	4,238	10,371	10,558	4,515	397	5,503	35,582
Total debt securities	10,437	22,778	22,393	19,013	3,900	12,274	90,795

The credit ratings, information or data contained in this report which are attributed and specifically provided by Standard & Poor's, Moody's and Fitch Solutions and their respective affiliates and suppliers ("Content Providers") is referred to here as the "Content". Reproduction of any Content in any form is prohibited except with the prior written permission of the relevant party. The Content Providers do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. The Content Providers expressly disclaim liability for any damages, costs expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold any such investment or security, nor does it address the suitability of an investment or security and should not be relied on as investment advice.

In the table above, AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as below BBB. Debt securities with no external credit rating are classified as 'Other'.

Securities with credit ratings classified as 'Other' can be further analysed as follows:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
Internal ratings or unrated:				
AAA to A-	8,323	8,148	7,993	6,940
BBB to B-	2,812	3,034	3,141	3,258
Below B- or unrated	4,472	3,814	2,437	2,076
Total	15,607	14,996	13,571	12,274

Excluded from the table above is £4,704m (at 31 December 2018: £6,676m; at 31 December 2017: £6,729m; at 31 December 2016: £6,641m) of assets backing unit-linked and index-linked contracts which are included within the unit-linked business component. The holders of these contracts bear the credit risk arising from these assets.

(i) Asset-backed securities

The Group has holdings in Asset-Backed Securities ("ABS") which are presented within debt securities on the combined statement of financial position. The Group's holdings in ABS, which comprise Residential Mortgage-Backed Securities, Commercial Mortgage-Backed Securities, Collateralised Debt Obligations funds and other asset-backed securities were as follows:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	£m	£m	£m	£m
With-profits fund	3,621	5,270	5,659	5,177
Shareholder-backed funds	1,083	1,406	1,070	1,464
Total	4,704	6,676	6,729	6,641

The majority of holdings in the shareholder-backed funds are UK securities and relate to the Group's annuity business. Of the holdings of the with-profits fund, £231m (at 31 December 2018: £1,823m; at 31 December 2017: £1,913m; at 31 December 2016: £1,623m) relates to exposure to the US markets with the remaining exposure being primarily to the UK market.

(ii) Sovereign debt and bank debt exposure

The Group exposures held by the with-profits fund and shareholder-backed funds in sovereign debts and bank debt securities are analysed as follows:

Exposure to sovereign debt securities

	As at 30 June 2019		2018		As at 31 December 2017		2016	
	With-profits fund	Shareholder-backed funds	With-profits fund	Shareholder-backed funds	With-profits fund	Shareholder-backed funds	With-profits fund	Shareholder-backed funds
	£m	£m	£m	£m	£m	£m	£m	£m
Italy	59	—	57	—	63	58	61	56
Spain	19	49	18	36	18	34	18	33
France	—	23	50	—	38	23	—	22
Germany	324	240	281	239	301	693	329	573
Other Eurozone	33	100	34	103	31	82	33	83
Total Eurozone	435	412	440	378	451	890	441	767
United Kingdom	2,636	2,235	3,012	2,285	3,287	4,828	2,868	4,448
United States	632	—	1,261	—	979	1	1,388	—
Other	207	59	199	56	259	58	252	54
Total	3,910	2,706	4,912	2,719	4,976	5,777	4,949	5,269

Exposure to bank debt securities

The exposure to bank debt securities is shown below by type of debt and also by economy. Subordinated debt is a fixed interest debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for the added risk through higher rates of interest. The senior debt ranks above subordinated debt in the event of liquidation, whereas covered senior debt is also backed by other assets in the event of insolvency. These debt tier classifications are consistent with the treatment of capital for regulatory purposes.

As at 30 June 2019

	Senior debt			Subordinated debt			
	Covered	Senior	Total senior debt	Tier 1	Tier 2	Total subordinated debt	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits fund							
Italy	—	39	39	—	—	—	39
Spain	—	26	26	—	—	—	26
France	6	363	369	—	74	74	443
Germany	116	63	179	—	8	8	187
Netherlands	—	288	288	—	—	—	288
Other Eurozone	—	86	86	—	—	—	86
Total Eurozone	122	865	987	—	82	82	1,069
United Kingdom	877	872	1,749	52	322	374	2,123
United States	—	2,771	2,771	16	335	351	3,122
Canada	245	298	543	—	—	—	543
Australia	88	254	342	—	—	—	342
Other	172	573	745	15	35	50	795
Total	1,504	5,633	7,137	83	774	857	7,994
Annuity and other long-term business fund							
Italy	—	—	—	—	—	—	—
Spain	—	—	—	—	—	—	—
France	21	36	57	—	—	—	57
Germany	—	—	—	—	89	89	89
Netherlands	—	37	37	—	—	—	37
Other Eurozone	—	—	—	—	—	—	—
Total Eurozone	21	73	94	—	89	89	183
United Kingdom	450	243	693	—	67	67	760
United States	—	252	252	—	29	29	281
Canada	—	—	—	—	—	—	—
Australia	—	—	—	—	—	—	—
Other	—	—	—	—	36	36	36
Total	471	568	1,039	—	221	221	1,260

As at 31 December 2018

	Senior debt			Subordinated debt			
	Covered	Senior	Total senior debt	Tier 1	Tier 2	Total subordinated debt	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits fund							
Italy	—	38	38	—	—	—	38
Spain	—	17	17	—	—	—	17
France	6	247	253	—	95	95	348
Germany	140	46	186	—	—	—	186
Netherlands	—	248	248	—	1	1	249
Other Eurozone	—	74	74	—	—	—	74
Total Eurozone	146	670	816	—	96	96	912
United Kingdom	909	825	1,734	35	329	364	2,098
United States	—	2,398	2,398	16	295	311	2,709
Canada	314	267	581	—	—	—	581
Australia	65	238	303	—	—	—	303
Other	197	601	798	13	25	38	836
Total	1,631	4,999	6,630	64	745	809	7,439
Annuity and other long-term business fund							
Italy	—	—	—	—	—	—	—
Spain	—	—	—	—	—	—	—
France	20	—	20	—	—	—	20
Germany	—	—	—	—	83	83	83
Netherlands	—	17	17	—	—	—	17
Other Eurozone	—	—	—	—	—	—	—
Total Eurozone	20	17	37	—	83	83	120
United Kingdom	445	168	613	—	63	63	676
United States	—	227	227	—	26	26	253
Canada	—	—	—	—	—	—	—
Australia	—	—	—	—	—	—	—
Other	—	6	6	—	34	34	40
Total	465	418	883	—	206	206	1,089

As at 31 December 2017

	Senior debt			Subordinated debt			
	Covered	Senior	Total senior debt	Tier 1	Tier 2	Total subordinated debt	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits fund							
Italy	—	31	31	—	—	—	31
Spain	—	16	16	—	—	—	16
France	9	213	222	—	62	62	284
Germany	120	20	140	—	—	—	140
Netherlands	—	186	186	—	—	—	186
Other Eurozone	—	27	27	—	—	—	27
Total Eurozone	129	493	622	—	62	62	684
United Kingdom	859	567	1,426	—	410	410	1,836
United States	—	2,192	2,192	16	296	312	2,504
Canada	315	243	558	—	—	—	558
Australia	66	247	313	—	—	—	313
Other	150	421	571	15	39	54	625
Total	1,519	4,163	5,682	31	807	838	6,520
Annuity and other long-term business fund							
Italy	—	—	—	—	—	—	—
Spain	—	—	—	—	—	—	—
France	28	41	69	—	—	—	69
Germany	—	—	—	—	80	80	80
Netherlands	—	38	38	—	—	—	38
Other Eurozone	—	—	—	—	—	—	—
Total Eurozone	28	79	107	—	80	80	187
United Kingdom	588	197	785	—	213	213	998
United States	—	348	348	—	141	141	489
Canada	—	—	—	—	—	—	—
Australia	16	—	16	—	—	—	16
Other	1	60	61	—	48	48	109
Total	633	684	1,317	—	482	482	1,799

As at 31 December 2016

	Senior debt			Subordinated debt			
	Covered	Senior	Total senior debt	Tier 1	Tier 2	Total subordinated debt	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits fund							
Italy	—	62	62	—	—	—	62
Spain	153	60	213	—	—	—	213
France	8	140	148	—	61	61	209
Germany	96	18	114	—	—	—	114
Netherlands	—	187	187	—	—	—	187
Other Eurozone	—	31	31	—	—	—	31
Total Eurozone	257	498	755	—	61	61	816
United Kingdom	544	369	913	—	403	403	1,316
United States	—	1,844	1,844	58	319	377	2,221
Canada	155	96	251	—	—	—	251
Australia	79	176	255	—	—	—	255
Other	78	418	496	14	40	54	550
Total	1,113	3,401	4,514	72	823	895	5,409
Annuity and other long-term business fund							
Italy	—	32	32	—	—	—	32
Spain	122	10	132	—	—	—	132
France	28	47	75	—	66	66	141
Germany	22	—	22	—	74	74	96
Netherlands	—	38	38	—	—	—	38
Other Eurozone	—	19	19	—	—	—	19
Total Eurozone	172	146	318	—	140	140	458
United Kingdom	471	178	649	—	226	226	875
United States	—	413	413	—	145	145	558
Canada	—	—	—	—	—	—	—
Australia	16	13	29	—	—	—	29
Other	1	85	86	—	49	49	135
Total	660	835	1,495	—	560	560	2,055

The tables above exclude assets held to cover unit-linked liabilities and those of the consolidated unit trusts and similar funds, as the holders of these contracts bear the credit risk arising from these assets. In addition, the tables above exclude the proportionate share of sovereign debt holdings of the Group's joint venture operations.

(B) Loans, receivables and reinsurance assets

Of the total loans and receivables held, £26m at 30 June 2019 (31 December 2018: £13m; 31 December 2017: £8m; 31 December 2016: £7m) were past their due date but were not impaired. Of the total past due but not impaired, all were less than one year past their due date. The Group expects full recovery of these loans and receivables.

The amount of loans that were impaired is not significant to the Group.

As at 30 June 2019, 80% of £2,172m (31 December 2018: 79% of £1,997m; 31 December 2017: 81% of £2,140m; 31 December 2016: 80% of £2,129m) mortgage loans held by the annuity and other long-term business related to lifetime (equity release) mortgage business, which had an average loan to property value of 34% (31 December 2018: 33%; 31 December 2017: 31%; 31 December 2016: 30%).

The Group is also exposed to counterparty default on its reinsurance assets. The Group evaluates the financial condition of its reinsurers and monitors concentration of credit risk to minimise its exposure from reinsurers insolvencies. The split of the reinsurance asset by credit rating is shown below. Standard & Poor's ratings have been used where available. For securities where Standard & Poor's ratings are not immediately available those produced by Moody's and then Fitch have been used as an alternative.

	As at 30 June		As at 31 December	
	2019	2018	2017	2016
	£m	£m	£m	£m
AA	308	596	1,070	1,074
A	(10)	11	214	40
A-	—	—	—	170
BBB	1,047	1,086	2	3
Unrated	1,345	1,119	1,235	1,302
Total	2,690	2,812	2,521	2,589

The reinsurance asset within the BBB rating category primarily consists of annuity business reinsured to Rothesay Life. The reinsurance assets within the 'unrated' category relates almost entirely to a quota-share reinsurance arrangement between PAC and Prudential Hong Kong Limited a subsidiary of Prudential plc which is an Excluded Subsidiary of the Group as detailed in Note 1.2(B) in respect of annuity business contained within the WPSF.

(C) Derecognition, collateral and offsetting

(i) Securities lending and reverse repurchase agreements

The Group has entered into securities lending and repurchase agreements whereby blocks of securities are transferred to third parties, primarily major brokerage firms in exchange for collateral. Typically, the value of collateral assets pledged to the Group in these transactions is in excess of the value of securities transferred, with the excess determined by the quality of the collateral assets granted. Collateral requirements are calculated on a daily basis. The securities lent are not removed from the Group's combined statement of financial position and are presented within the appropriate investment classification. Collateral typically consists of cash, debt securities, equity securities and letters of credit. Collateral pledged by the Group under securities lending arrangements, aside from cash, is not derecognised from the statement of financial position as the risks and rewards are still retained by the Group. Cash collateral pledged is derecognised as it is pledged under right to use by the counterparty.

At 30 June 2019, the Group had £7,003m (31 December 2018: £8,245m; 31 December 2017: £8,182m; 31 December 2016: £8,113m) of lent securities and assets subject to repurchase agreements, all of which related to the WPSF. The cash and securities collateral held under such agreements was £6,394m (31 December 2018: £7,457m; 31 December 2017: £7,347m; 31 December 2016: £7,157m). Collateral pledged by the company was £1,045m (31 December 2018: £1,205m; 31 December 2017: £1,332m; 31 December 2016: £1,510m). At 30 June 2019, the Group had entered into reverse repurchase transactions

under which it purchased securities and had taken on the obligation to resell the securities. The fair value of the collateral held in respect of these transactions was £12,933m (31 December 2018: £8,934m; 31 December 2017: £8,817m; 31 December 2016: £8,481m).

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

(ii) Collateral and pledges under derivative transactions

At 30 June 2019, the Group had pledged £1,304m (at 31 December 2018: £991m; at 31 December 2017: £449m; at 31 December 2016: £690m) for liabilities and held collateral of £1,724m (at 31 December 2018: £1,376m; at 31 December 2017: £1,960m; at 31 December 2016: £1,870m) in respect of over-the-counter derivative transactions.

(iii) Other collateral

At 30 June 2019 the Group had pledged collateral of £490m (at 31 December 2018: £396m; at 31 December 2017: £367m; 31 December 2016: £429m) in respect of other transactions. This primarily arises from deferred purchase consideration on the lifetime (equity release) mortgages.

(iv) Offsetting assets and liabilities

The Group's derivative instruments, repurchase agreements and securities lending agreements are subject to master netting arrangements and collateral arrangements. A master netting arrangement with a counterparty creates a right of offset for amounts due to and due from that same counterparty that is enforceable in the event of a default or bankruptcy. The Group recognises amounts subject to master netting arrangements on a gross basis within the combined statement of financial position.

The following tables present the gross and net information about the Group's financial instruments subject to master netting arrangements:

As at 30 June 2019	Related amounts not offset in the combined statement of financial position				Net amount
	Gross amount included in the combined statement of financial position	Financial instruments	Cash collateral	Securities collateral	
	£m	£m	£m	£m	£m
Financial assets:					
Derivative assets	2,807	(1,106)	(1,654)	(26)	21
Reverse repurchase agreements	15,196	—	—	(12,600)	2,596
Total financial assets	18,003	(1,106)	(1,654)	(12,626)	2,617
Financial liabilities:					
Derivative liabilities	2,270	(1,106)	(650)	(491)	23
Securities lending and repurchase agreements	1,054	—	—	(1,054)	—
Total financial liabilities	3,324	(1,106)	(650)	(1,545)	23

As at 31 December 2018

	Related amounts not offset in the combined statement of financial position			
Gross amount included in the combined statement of financial position	Financial instruments	Cash collateral	Securities collateral	Net amount
£m	£m	£m	£m	£m
Financial assets:				
Derivative assets	2,465	(1,019)	(1,346)	100
Reverse repurchase agreements	11,149	—	(9,458)	1,691
Total financial assets	13,614	(1,019)	(1,346)	1,791
Financial liabilities:				
Derivative liabilities	1,938	(1,019)	(677)	44
Securities lending and repurchase agreements	1,224	—	(1,205)	19
Total financial liabilities	3,162	(1,019)	(677)	63

As at 31 December 2017

	Related amounts not offset in the combined statement of financial position			
Gross amount included in the combined statement of financial position	Financial instruments	Cash collateral	Securities collateral	Net amount
£m	£m	£m	£m	£m
Financial assets:				
Derivative assets	2,884	(836)	(1,899)	119
Reverse repurchase agreements	9,433	—	(8,913)	520
Total financial assets	12,317	(836)	(1,899)	639
Financial liabilities:				
Derivative liabilities	1,207	(836)	(330)	22
Securities lending and repurchase agreements	1,358	—	(1,332)	26
Total financial liabilities	2,565	(836)	(330)	48

As at 31 December 2016

As at 31 December 2016	Related amounts not offset in the combined statement of financial position				
	Gross amount included in the combined statement of financial position	Financial instruments	Cash collateral	Securities collateral	Net amount
	£m	£m	£m	£m	£m
Financial assets:					
Derivative assets	2,865	(863)	(1,776)	(64)	162
Reverse repurchase agreements	8,380	—	—	(8,295)	85
Total financial assets	11,245	(863)	(1,776)	(8,359)	247
Financial liabilities:					
Derivative liabilities	1,494	(863)	(454)	(143)	34
Securities lending and repurchase agreements	1,496	—	—	(1,496)	—
Total financial liabilities	2,990	(863)	(454)	(1,639)	34

In the tables above, the amounts of assets or liabilities included in the statement of financial position would be offset first by financial instruments that have the right of offset under master netting or similar arrangements with any remaining amount reduced by the amount of cash and securities collateral held or pledged. The actual amount of collateral may be greater than amounts presented in the tables.

Reverse repurchase agreements shown in the tables above are included within deposits on the combined statement of financial position.

28.4 Demographic and expense risk

The Group is exposed to significant levels of demographic risk. This arises mainly from the annuity business in the form of longevity risk, which is the risk that the Group's (current and deferred) annuity customers live longer than expected in the Group's current pricing and reserving assumptions, and as a result future reserving and capital assumptions are changed. If mortality improvement rates significantly exceed the improvement assumed, the Group's results could be adversely affected. Further to this, any major medical breakthrough (for example in the treatment of cancer or other life-threatening diseases) that would require the Group to strengthen its longevity assumptions would have an impact on the Group's results.

Longevity risk has been predominantly managed through:

- annual reviews of best estimate assumptions, supported by detailed assessments of actual mortality experience versus best estimate assumptions;
- longevity research;
- longevity risk transfer transactions are assessed against principles and guidance provided in a reinsurance appraisal framework; and
- monthly monitoring of longevity exposure.

Other demographic risks such as persistency risk and non-annuitant mortality risk, and also expense risk are subject to regular reviews, with frequency and intensity proportionate to the materiality of the risk.

Further details of the sensitivity of profit and shareholders' equity to insurance risk are described below by the components of business.

(A) With-profits business

Mortality and other insurance risk are relatively minor factors in the determination of the policyholder bonus rates. Adverse persistency experience can affect the level of profitability from with-profits, but in any given year the shareholders' share of cost of bonus may only be marginally affected. However, altered persistency trends may affect future expected shareholder transfers.

(B) Unit-linked business

By virtue of the design features of most of the contracts which provide low levels of mortality cover, profit is relatively insensitive to changes in mortality experience. Persistency experience variances can affect the level of profit in the year. The shareholder is also exposed to variances in expenses relative to the charges levied on these products.

(C) Annuity and other long-term business

Profits from shareholder-backed annuity business are most sensitive to the following insurance risks:

- the extent to which changes to the assumed rate of improvements in mortality give rise to changes in the measurement of liabilities;
- the variance between actual and expected mortality experience and its impact on current mortality assumptions; and
- changes in maintenance expense levels.

A decrease in assumed mortality rates of 1% would decrease pre-tax profit for the six months ended 30 June 2019 by approximately £41m (for the year ended 31 December 2018: £37m; 31 December 2017, £66m; 31 December 2016: £67m).

A decrease in shareholder-backed annuity renewal expenses (excluding asset management expenses) of 5% would increase pre-tax profit by £22m for the six months ended 30 June 2019 (for the year ended 31 December 2018: £21m; 31 December 2017: £40m; 31 December 2016: £41m).

The effect on profit would be approximately symmetrical for changes in assumptions that are directionally opposite to those explained above. See Note 21.1.3 for further details on mortality assumptions.

The insurance risk on the other long-term business is not significant in the context of the Group's overall liabilities.

28.5 Treasury liquidity risk

Treasury liquidity risk is the risk of loss for the Group's business, or of adverse changes in the financial situation, resulting from the Group's inability to generate sufficient cash resources to meet financial obligations (e.g. claims, creditors and planned dividends) as they fall due.

Liquidity management in the Group seeks to ensure that, even under adverse conditions, the Group has access to the funds necessary to cover surrenders, withdrawals and maturing liabilities. Liquidity risk is carefully managed in particular in relation to: bank balances, cashflow forecasting, appropriate fund management (to ensure that assets are not unduly concentrated in less liquid investments) and detailed cash-flow matching for the annuity business. Specific arrangements are also in place to manage liquidity in the unit-linked funds, particularly property funds where the underlying assets are relatively illiquid.

Most of the Group's assets are marketable securities. This, combined with the fact that a large proportion of the liabilities contain discretionary surrender values or surrender charges, reduces the liquidity risk.

(A) Contractual maturities of financial liabilities on an undiscounted cash flow basis

The following table sets out the contractual maturities for applicable classes of financial liabilities, excluding derivative liabilities and investment contracts that are separately presented. The financial liabilities are included in the column relating to the contractual maturities at the undiscounted cash flows (including contractual interest payments) due to be paid assuming conditions are consistent with those of year end.

As at 30 June 2019	Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total undiscounted value
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial liabilities									
Third party interest in consolidated funds	9,040	9,040	—	—	—	—	—	—	9,040
Borrowings and subordinated liabilities	3,712	786	1,525	264	210	167	2,106	—	5,058
Other financial liabilities	2,723	2,723	—	—	—	—	—	—	2,723
Accruals, deferred income and other liabilities	7,140	6,163	248	69	95	110	265	190	7,140
Total	22,615	18,712	1,773	333	305	277	2,371	190	23,961

As at 31 December 2018	Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total undiscounted value
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial liabilities									
Third party interest in consolidated funds	9,383	9,383	—	—	—	—	—	—	9,383
Borrowings and subordinated liabilities	4,055	648	1,342	721	275	142	2,088	—	5,216
Other financial liabilities	2,592	2,592	—	—	—	—	—	—	2,592
Accruals, deferred income and other liabilities	6,262	5,312	177	63	90	109	320	191	6,262
Total	22,292	17,935	1,519	784	365	251	2,408	191	23,453

As at 31 December 2017	Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total undiscounted value
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial liabilities									
Third party interest in consolidated funds	5,638	5,638	—	—	—	—	—	—	5,638
Borrowings and subordinated liabilities	3,877	926	1,154	141	142	136	2,171	100	4,770
Other financial liabilities	3,255	3,255	—	—	—	—	—	—	3,255
Accruals, deferred income and other liabilities	4,872	3,943	194	58	85	106	300	186	4,872
Total	17,642	13,762	1,348	199	227	242	2,471	286	18,535

As at 31 December 2016	Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total undiscounted value
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial liabilities									
Third party interest in consolidated funds	6,034	6,034	—	—	—	—	—	—	6,034
Borrowings and subordinated liabilities	1,507	511	876	33	21	10	61	144	1,656
Other financial liabilities	3,269	3,269	—	—	—	—	—	—	3,269
Accruals, deferred income and other liabilities	4,571	3,839	168	55	80	103	322	4	4,571
Total	15,381	13,653	1,044	88	101	113	383	148	15,530

(B) Maturity analysis of investment contracts on an undiscounted cash flow basis

The table below shows the maturity profile for investment contracts on undiscounted cash flow projections of expected benefit payments.

	Total carrying value	1 year or less	1- 5 years	5- 10 years	10- 15 years	15- 20 years	Over 20 years	No stated maturity	Total undiscounted value
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 30 June 2019	83,255	8,093	32,342	29,861	20,662	12,496	15,718	11,326	130,498
As at 31 December 2018	82,598	7,851	29,669	28,705	20,116	12,365	15,704	11,224	125,634
As at 31 December 2017	79,409	7,559	27,143	26,567	19,086	12,429	14,322	12,188	119,294
As at 31 December 2016	68,661	5,937	22,594	22,882	15,245	9,876	9,164	11,411	97,109

Most investment contracts have options to surrender early, often subject to surrender or other penalties. Therefore, most contracts can be said to have a contractual maturity of less than one year, but the additional charges and term of the contracts mean surrenders are unlikely to be exercised in practice.

The vast majority of the Group's financial assets are held to back the Group's policyholder liabilities. Although asset/liability matching is an important component of managing policyholder liabilities (both those classified as insurance and those classified as investments), this profile is mainly relevant for managing market risk rather than liquidity risk. Within each business unit this asset/liability matching is performed on a portfolio-by-portfolio basis.

Much of the Group's investment portfolios are in marketable securities, which can therefore be converted quickly to liquid assets. As a result an analysis of the Group's assets by contractual maturity is not considered appropriate to evaluate the nature and extent of the Group's liquidity risk.

(C) Maturity analysis of derivatives

The following table shows the gross and net derivative positions together with a maturity profile of the net derivative position:

	Carrying value of net derivatives			Maturity profile of net derivative position				
	Derivative assets	Derivative liabilities	Net derivative position	1 year or less	1-3 years	3-5 years	After 5 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m
As at 30 June 2019	2,883	(2,677)	206	553	(345)	—	(2)	206
As at 31 December 2018	2,513	(2,208)	305	467	(162)	—	—	305
As at 31 December 2017	2,954	(1,661)	1,293	1,583	(290)	—	—	1,293
As at 31 December 2016	2,927	(1,861)	1,066	1,303	(197)	—	(40)	1,066

The majority of derivative assets and liabilities have been included at fair value within the one year or less column, representing the basis on which they are managed (i.e. to manage principally asset or liability value exposures). The Group has no cash flow hedges and in general, contractual maturities are not considered essential for an understanding of the timing of the cash flows for these instruments.

28.6 Derivatives and hedging

The Group uses derivatives for the purpose of efficient portfolio management or the reduction in investment risk. In doing so, the Group obtains cost effective and efficient exposure to various markets and manages exposure to equity, interest rate, currency, credit and other business risks. The Group has opted not to apply hedge accounting to derivatives.

The Group uses various interest rate derivative instruments such as interest rate swaps and swaptions to reduce exposure to interest rate volatility.

The Group also uses various currency derivatives in order to limit volatility due to foreign currency exchange rate fluctuations arising on securities denominated in currencies other than Pounds Sterling.

All over-the-counter derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association, Inc.) master agreements and CSA (Credit Support Annex) agreements. The Group has collateral agreements between the individual group entities and relevant counterparties in place under each of these market master agreements. The Group also has the ability to enter into cleared derivative positions under EMIR (European Market Infrastructure Regulation).

There are hedging arrangements in place for the with-profits liabilities. In addition to some product/purpose specific arrangements, the main objective of the hedging arrangements is to broadly match a subset of the market consistent liabilities and hence protect the capital position of the with-profits business against adverse market movements. A benchmark of a theoretical replicating portfolio (comprising of equity put options and interest rate exposures) representing the liabilities has been determined, based on characteristics of the with-profits liability. The actual and required hedging positions are monitored at least monthly and rebalanced if required.

(A) Hedges in respect of shareholder transfers arising from the with-profits business

The shareholder's exposure to market risk from with-profits business arises from the declaration of policyholder bonuses which depend on investment return of the funds. These shareholder transfers, while smoothed, are particularly exposed to equity risk.

The Group has entered into a partial equity hedge of the shareholder transfers expected to emerge from the WPSF in order to mitigate this risk. The effect for the six months ended 30 June 2019 was an unrealised loss of £181m (for the year ended 31 December 2018: gain of £201m; 31 December 2017: loss of £113m; 31 December 2016: gain of £202m) and a realised loss of £nil (31 December 2018: loss of £48m; 31 December 2017: loss of £97m; 31 December 2016: loss of £75m).

During 2018, PAC entered into a risk management arrangement of the shareholder transfers expected to emerge from the WPSF, specifically with regard to new business invested in PruFund in 2018. This arrangement is designed to protect the shareholder against extremely weak market returns. The transaction resulted in a £19m loss for the six months ended 30 June 2019 (for the year ended 31 December 2018: £nil). The arrangement was extended in June 2019 to protect business written over the first half of 2019, and had no impact on profit in the six months ended 30 June 2019.

29. Contingencies and related obligations

29.1 Litigation and regulatory matters

In addition to the matters set out in Note 24 in relation to the FCA review of past annuity sales, the Group is involved in various litigation and regulatory issues. While the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Directors believe that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows.

29.2 Guarantees

Guarantee funds provide for payments to be made to policyholders on behalf of insolvent life insurance companies and are financed by payments assessed on solvent insurance companies based on location, volume and types of business. The estimated reserve for future guarantee fund assessments is not significant and adequate reserves are available for all anticipated payments for known insolvencies.

The Group has provided other guarantees and commitments to third-parties entered into in the normal course of business but the Group does not consider that the amounts involved are significant.

29.3 Support for with-profits fund by shareholder

PAC is liable to meet its obligations to with-profits policyholders even if the assets of the with-profits sub-funds are insufficient to do so. The assets, represented by the unallocated surplus of the with-profits fund, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers ('the excess assets') in the with-profits sub-funds could be materially depleted over time by, for example, a significant or sustained equity market downturn. In the unlikely circumstance that the depletion of the excess assets within the with-profits sub-funds was such that the Group's ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the with-profits sub-funds to provide financial support.

The following matters are of relevance with respect to with-profits funds:

- **Pension mis-selling review:** The UK insurance regulator required all UK life insurance companies to review sales of personal pensions policies for potential mis-selling. Whilst PAC believed it met the requirements of the Financial Services Authority (the UK insurance regulator at the time) to issue offers of redress to all impacted customers by 30 June 2002, there is a population of customer who, whilst an attempt was made at the time, to invite them to participate in the review, may not have received their invitation. These customers are being re-engaged to ensure they have the opportunity to take part in the review. Costs arising from this review are met by the excess assets of the with-profits sub-fund and hence have not been charged to the asset shares used in the determination of policyholder bonus rates. An assurance was given that these deductions from excess assets would not impact PAC's bonus or investment policy for policies within the with-profits sub-funds that were in force at 31 December 2003. This assurance does not apply to new business since 1 January 2004. In the unlikely event that such deductions would affect the bonus or investment policy for the relevant policies, such assurance provides that support would be made available to the sub-fund from PAC's shareholder resources for as long as the situation continued, so as to ensure that PAC's policyholders were not disadvantaged. PAC's comfort in its ability to make such support available were historically supported by related intra-group arrangements between Prudential plc and PAC, which formalised the circumstances in which capital support would be made available to PAC by Prudential plc. These arrangements between Prudential plc and PAC were terminated at Admission and new arrangements became effective. These new arrangements formalise the circumstances in which the Company will make

capital support available to PAC, and the circumstances in which Prudential Capital plc will guarantee and provide collateral with respect to a part of the Company's commitment.

- SAIF: Policies within this sub-fund contain guaranteed benefits to policyholders. Should the assets of the sub-fund be inadequate to meet the guaranteed benefit obligations of the policyholders of SAIF, the WPSF would be liable to cover any such deficiency in the first instance. In addition, certain pensions products within this sub-fund have guaranteed annuity rates at retirement, for which a provision of £372m is held within the sub-fund as at 30 June 2019 (31 December 2018: £361m; 31 December 2017: £503m; 31 December 2016: £571m).
- Guaranteed annuities: A provision for guaranteed annuity products of £49m is held as at 30 June 2019 (31 December 2018: £49m; 31 December 2017: £53m; 31 December 2016: £62m) in the with-profits sub-fund.

30. Commitments

Operating leases and capital commitments

The Group leases various offices to conduct its business. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Until 1 January 2018, payments made under operating leases (net of any incentives received from the lessor) were charged to the income statement on a straight-line basis over the period of the lease as required by IAS 17 *Leases*.

On the adoption of IFRS 16 *Leases* from 1 January 2018, the Group has recognised a lease liability in respect of these leases representing the obligation to make future lease payments.

The table below presents a maturity analysis of lease payments showing the undiscounted lease payments to be received on an annual basis on these leases.

	As at 30 June		As at 31 December		
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m
Future minimum lease payments for non-cancellable operating leases fall due during the following periods:					
Less than 1 year	9	21	16	19	20
1 - 5 years	109	115	105	33	36
Over 5 years	314	327	325	8	11
Future minimum sub-lease rentals received for non-cancellable operating leases for land and buildings (i)	—	—	—	2	1
Minimum lease rental payments included in combined income statement (i)	—	—	—	22	23

(i) Disclosure no longer required on transition to IFRS 16

In addition, the Group has provided, from time to time, certain guarantees and commitments to third parties including funding the purchase or development of land and buildings and other related matters. The contractual obligations to purchase or develop investment property as at 30 June 2019 were £628m (31 December 2018: £615m; 31 December 2017: £176m; 31 December 2016: £458m).

As at 30 June 2019, the Group had unfunded commitments of £4,234m (31 December 2018: £4,610m; 31 December 2017: £3,776m; 31 December 2016: £2,985m) to private equity and infrastructure funds. These commitments were entered into in the normal course of business and no material adverse impact on the operations is expected to arise.

31. Related party transactions

During the Track Record Period, the Group and its related parties comprise members of the Prudential plc Group as well as the Group's joint ventures and associates, Prudential plc's joint ventures and associates and any entity controlled by those parties.

31.1 Transactions and balances with related parties

(A) Transactions with Prudential plc group

The following transactions were carried out with related parties who are members of the Prudential plc group.

	For the six months ended 30 June		For the year ended 31 December		
	2019 £m	2018 £m	2018 £m	2017 £m	2016 £m
Revenue	8	3	7	20	16
Expenses	57	49	127	130	111

	As at 30 June		As at 31 December		
	2019 £m	2018 £m	2017 £m	2016 £m	
Amounts due from related parties	35	968	743	801	
Amounts due to related parties	1,361	1,579	1,594	1,686	

Details of related party capital support arrangements are included in Note 29.

(B) Transactions with the Group's joint ventures and associates

The Group received dividends of £156m for the six months ended 30 June 2019 (for the year ended 31 December 2018: £9m; 31 December 2017: £36m; 31 December 2016: £45m) and made additional capital injections of £1m in the six months ended 30 June 2019 (for the year ended 31 December 2018: £181m; 31 December 2017: £3m; 31 December 2016: £3m) from/to joint ventures or associates accounted for using the equity method.

In addition, the Group had balances due from joint ventures or associates accounted for using the equity method of £132m as at 30 June 2019 (31 December 2018: £163m; 31 December 2017: £104m; 31 December 2016: £185m) and balances due to joint ventures or associates accounted for using the equity method of £29m as at 30 June 2019 (31 December 2018: £29m; 31 December 2017: £28m; 31 December 2016: £28m).

Furthermore, in the normal course of business a number of investments into/divestments from investment vehicles managed by the Group were made. This includes investment vehicles which are classified as investments in associates and joint ventures measured at FVTPL. The Group entities paid amounts for

the issue of shares or units and received amounts for the cancellation of shares or units. These transactions are not considered to be material to the Group.

31.2 Compensation of key management personnel

Key management personnel includes directors of the Company for all periods included in this HFI representing their compensation based on their role prior to the establishment of the Company. For the period from 1 January 2019 to 30 June 2019, those members of the Executive Committee, which was formed in 2019, who are deemed to have power to influence the direction, planning and control the activities of the Group are also considered to be key management personnel.

Key management personnel of the Company may from time to time purchase insurance, asset management or annuity products marketed by the Group companies in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons.

In all periods presented, other transactions with key management personnel are not deemed to be significant either by virtue of their size or in the context of the key management personnel's respective financial positions. All of these transactions are on terms broadly equivalent to those that prevail in arm's length transactions.

The summary of compensation of key management personnel is as follows:

	For the six months ended 30 June		For the year ended		
	2019	2018	2018	2017	2016
	£m	£m	£m	£m	£m
Salaries and short-term benefits	2.3	1.0	5.1	4.5	2.3
Post-employment benefits	0.3	0.2	0.4	0.3	0.2
Share-based payments	—	—	1.5	2.4	1.8
Total	2.6	1.2	7.0	7.2	4.2

32. Capital management

32.1 Capital regulations of entities within the Group

During the Track Record Period the regulated entities within the Group have been subject to local capital regulations. Capital is actively managed to ensure that local regulatory requirements are met. The main regulated entities and the regulatory framework to which they must adhere are listed below:

Entity	Main activity	Regulatory Framework
The Prudential Assurance Company Limited	Insurance	Solvency II
Prudential International Assurance plc	Insurance	Solvency II
Prudential Pensions Limited	Insurance	Solvency II
M&G Group Limited	Investment management	BIPRU (i)

(i) Prudential Sourcebook for Banks, Building Societies and Investment Firms

The Group is regulated under Solvency II and manages group Solvency II own funds as its measure of capital. While M&G Group Limited is subject to separate local regulatory requirements, this is consolidated within the Group's Solvency II results on a sectoral basis.

32.2 Insurance undertakings

The insurance undertakings within the Group are subject to Solvency II capital requirements on an individual basis. Solvency II is a risk-based solvency framework required under the European Solvency II Directive as implemented by the PRA in the UK. The Solvency II surplus represents the aggregated capital (own funds) held by the Group less the Solvency Capital Requirement ("**SCR**"). Own Funds is the Solvency II measure of assets less liabilities and certain other restrictions. The SCR is calculated using the Group's internal capital model, which calculates the SCR as the 99.5th percentile (or 1-in-200) worst outcome over the coming year, out of 100,000 equally likely scenarios, allowing for the dependency between the risks the business is exposed to.

The main regulated insurance entity within the Group is PAC, which includes the insurance subsidiaries Prudential International Assurance plc and Prudential Pensions Limited within its solo capital calculation. All regulated insurance entities within the Group have met their respective capital requirements during the Track Record Period.

32.3 Asset management undertakings' regulatory capital requirements

M&G Group Limited is the Group's main asset management subsidiary. M&G Group Limited and its regulated subsidiaries are subject to minimum capital requirements set by the FCA. Regulatory capital is defined as the total of share capital and retained earnings less regulatory deductions. The minimum level of regulatory capital required (Pillar 1) is the higher of a fixed overhead requirement and the sum of the credit risk and market risk capital requirements.

In addition, M&G Group Limited is required to maintain a minimum level of Pillar 2 capital, which is set in relation to the firm's actual risk profile and its own determination of whether capital is required to cover these risks. This is achieved through the Internal Capital Adequacy Assessment Process undertaken by M&G Group Limited and the Supervisory Review and Evaluation Process performed by the FCA.

M&G Group Limited and its subsidiaries have met their respective capital requirements over the historical period.

32.4 Illustrative Group capital position

(A) Regulatory capital position

The regulatory capital position of the Group will take into account both shareholder and with-profits funds. This view of capital recognises the ring-fenced nature of the with-profits funds and on consolidation, surplus in those funds can only be recognised to the level of associated solvency capital requirement with any excess surplus being eliminated as a ring-fenced fund restriction. As such the combined solvency coverage ratio is highly resilient to movements in the with-profits own funds.

The following illustrative regulatory capital position for the Group has been prepared as at 30 June 2019. The illustrative position reflects the perimeter of the Group as set out in Note 1.2.2. The results include transitional measures which have been recalculated using management's estimate of the impact of

operating and market conditions at the valuation date, which at 30 June 2019 differed from the approved regulatory position for PAC.

Prior to the Demerger, the Group requested approval from the PRA to amend the existing Prudential Group internal model to apply at the level of the Group, rather than the existing Prudential Group. The approval was received on 11 October 2019, with effect from the date of the Demerger. Up to the point of the Demerger, the Prudential Group internal model remained in place. The results set out below should not be interpreted as representing the Pillar I output from an approved Solvency II internal model for the Group and are subject to change.

	As at 30 June	
	2019	
	£m	
Assets	205,855	Audited (i)
Technical Provisions	172,203	
Best Estimate Liabilities	170,492	Audited
Risk Margin	4,730	Unaudited
Transitional Measures	(3,019)	Unaudited
Other liabilities	13,079	Audited
Excess of assets over liabilities	20,573	
Subordinated debt	—	Audited
Ring-fenced fund restriction	6,640	Unaudited
Group illustrative own funds	13,933	Unaudited
Group illustrative SCR	10,074	Unaudited
Group illustrative surplus	3,859	Unaudited
Regulatory coverage ratio	138%	Unaudited

(i) Solvency II assets include balances in respect of M&G Group Limited, Prudential Lifetime Mortgages Limited and other entities which are valued on a sectoral basis in accordance with the Solvency II rules. These balances are unaudited.

(B) Estimated and unaudited shareholder capital position

The Group focuses on a shareholder view of the Solvency II capital position, which is considered a more accurate reflection of the capital strength of the Group. The shareholder view includes future with-profits shareholder transfers, but excludes the shareholders' share of the ring-fenced with-profits estate. The estimated and unaudited illustrative shareholder Solvency II capital position for the Group as at 30 June 2019 and 31 December 2018 is shown below, prepared on a basis consistent with the regulatory capital position in Note 32.4(A).

	As at 30 June	As at 31 December
	2019	2018
	£bn	£bn
Own Funds	9.5	9.6
SCR	5.6	5.6
Surplus	3.9	4.0
Coverage ratio	169%	172%

32.5 Meeting of capital management objectives

The Group manages its capital on a Solvency II basis to ensure that sufficient own funds are available on an ongoing basis to meet regulatory capital requirements. This is achieved by targeting a capital buffer significantly in excess of regulatory capital requirements. This buffer is intended to absorb the impact of stress market conditions and thus make the Solvency II balance sheet under the regulatory view resilient to stresses that affect the Group's business.

A range of stress and scenario testing is carried out across the business, including certain scenarios mandated by the regulator. The sensitivity of liabilities and other components of total capital vary depending upon the type of business concerned and this influences the approach to asset/liability management.

In addition, projections are performed over three year time horizons to understand how the own funds and capital position is expected to develop and how this might be affected by adverse events taking place. Informed by the results of these projections there are a number of actions available to management to strengthen the own funds position.

As well as holding sufficient capital to meet regulatory requirements, the Group also closely manages the cash it holds so that it can:

- maintain flexibility, fund new opportunities and absorb shock events;
- meet liabilities to policyholders and other obligations;
- fund dividends; and
- cover central costs and debt payments.

33. Post balance sheet events

On 14 March 2018, Prudential plc announced the reinsurance of £12bn (as at 31 December 2017) of the Annuity Portfolio to Rothesay Life by way of a collateralised reinsurance arrangement followed by an insurance business transfer scheme under Part VII of FSMA. The terms of the reinsurance arrangement transferred substantially all of the economic risk and capital requirements associated with the Annuity Portfolio to Rothesay Life, subject to a residual counterparty credit risk attaching to reinsurance receivables.

On 16 August 2019, the High Court declined to sanction the Scheme, despite the independent expert, who was appointed to report to the High Court, concluding that the transfer would have no material adverse effect on the security of benefits or the reasonable benefit expectations of PAC's policyholders. On 27 September 2019, PAC and Rothesay Life lodged a notice of appeal with the Court of Appeal in respect of the High Court's judgment. No timetable has yet been set for the appeal process. The High Court's judgment has no direct impact on the reinsurance with Rothesay Life and there is no significant impact on the carrying value of the associated assets and liabilities which were classified as held for sale at 30 June 2019 and 31 December 2018.

On 30 September 2019, the FCA announced it had fined PAC £24m following the FCA's investigation into PAC's failures related to historic non-advised annuity products. Payment of the fine has been made.

On 18 October 2019, as part of the demerger activities, Tier 2 subordinated debt with a nominal value of £3,240m was transferred to the Company for consideration of £3,216m plus £26m of accrued interest. The debt had a fair value of £3,788m on transfer, with the difference between the consideration received and the fair value of the debt being accounted for as a distribution by the Company to Prudential plc.

On 21 October 2019, as set out in Note 29, the capital support arrangements between Prudential plc and PAC terminated. At this time, arrangements formalising the circumstances in which the Company will make capital support available to PAC, and the circumstances in which Prudential Capital plc, a subsidiary of the Group, will guarantee and provide collateral with respect to a part of the Company's commitment became effective.

On 25 October, PAC recaptured a quota share reinsurance treaty held by its With-profit Fund with Prudential Hong Kong Limited, with effect from 1 October 2019. This has resulted in the recapture of £1bn of annuity liabilities. There is no IFRS impact on profit as a result of this transaction as it occurred in the With-profit Fund.

34. Related undertakings

In accordance with Section 409 of the Companies Act 2006, a list of the Group's subsidiaries, joint ventures, associates and significant holdings (being holdings of more than 20 per cent.) along with the classes of shares held, the registered office address and the country of incorporation and the effective percentage of equity owned at 30 June 2019 is disclosed below.

The definitions of a subsidiary undertaking, joint venture and associate in accordance with the Companies Act 2006 are different from the definition under IFRS. As a result, the related undertakings included within the list below may not be the same as the undertakings consolidated in the Group IFRS statements. The Group's consolidation policy is described in Note 1.5.

34.1 Direct subsidiary undertakings of the parent company, M&G plc (shares held directly or via nominees)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Group Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Prudential (Holdings) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Financial Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Property Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Prudential Assurance Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

34.2 Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, M&G plc, or its nominees)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
ANRP II (AIV VI FC), L.P.	LPI	43%	Cayman Corporate Centre, 27 Hospital Road, George Town, KY 9008, Cayman Islands
BWAT Retail Nominee (1) Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
BWAT Retail Nominee (2) Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Calvin F1 GP Limited (in liquidation)	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Calvin F2 GP Limited (in liquidation)	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Canada Property (Trustee) No 1 Limited	OS	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
Canada Property Holdings Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Cardinal Distribution Park Management Limited	OS	66%	5th Floor Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Carraway Guildford (Nominee A) Limited	OS	100%	13 Castle Street, St Helier, JE4 5UT, Jersey
Carraway Guildford (Nominee B) Limited	OS	100%	13 Castle Street, St Helier, JE4 5UT , Jersey
Carraway Guildford General Partner Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Carraway Guildford Investments Unit Trust	OS	100%	13 Castle Street, St Helier, JE4 5UT, Jersey
Carraway Guildford Limited Partnership	LPI	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Centaurus Retail LLP	LPI	50%	40 Broadway, London, SW1H 0BU, UK
Centre Capital Non-Qualified Investors IV AIV Orion, L.P.	LPI	48%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors IV AIV-ELS, L.P.	LPI	76%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors IV, L.P.	LPI	46%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors V AIV-ELS LP	LPI	37%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors V LP	LPI	38%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
CJPT Real Estate Inc.	OS	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
CJPT Real Estate No 1 Trust	OS	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
CJPT Real Estate No 2 Trust	OS	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Cribbs Causeway JV Limited	OS	50%	40 Broadway, London, SW1H 0BT, UK
Cribbs Causeway Merchants Association Ltd ("CCMA Ltd")	LBG	20%	The Mall at Cribbs Causeway, Bristol, BS34 5DG, UK
Cribbs Mall Nominee (1) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Digital Infrastructure Investment Partners GP LLP	LPI	65%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Digital Infrastructure Investment Partners GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Digital Infrastructure Investment Partners SLP GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Digital Infrastructure Investment Partners SLP GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Digital Infrastructure Investment Partners SLP GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Eastspring Investments - Asian Local Bond Fund	OS	99%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Asian Smaller Companies Fund	OS	100%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Asian Total Return Bond Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Developed and Emerging Asia Equity Fund	OS	98%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Global Emerging Markets Customized Equity Fund	OS	99%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Global Emerging Markets Dynamic Fund	OS	91%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Japan Equity Fund	U	87%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Bond Fund	OS	35%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments SICAV-FIS Africa Equity Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments US Equity Income Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg
Edger Investments Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Edinburgh Park (Management) Limited	LBG	100%	1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL, UK
Embankment GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Embankment Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Embankment Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Falan GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Fashion Square ECO LP (In liquidation)	LPI	50%	1209 Orange Street, Wilmington, DE 19801, USA
Folios III Designated Activity Company	OS	60%	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Fort Kinnaird GP Limited	OS	50%	York House, 45 Seymour Street, London, W1H 7LX, UK
Fort Kinnaird Limited Partnership	LPI	50%	York House, 45 Seymour Street, London, W1H 7LX, UK
Foudry Properties Limited	OS	50%	Clearwater Court, Vastern Road, Reading RG1 8DB, UK
Genny GP 1 LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Genny GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Genny GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
George Digital GP 1 LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
George Digital GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
George Digital GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
GGE GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Green GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Greenpark (Reading) General Partner Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Greenpark (Reading) Nominee No. 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
GreenPark (Reading) Nominee No. 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
GS R100 GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Holborn Bars Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital (AIRI) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Belmond) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Bio) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Infracapital (Churchill) GP 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital (Churchill) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital (GC) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Gigaclear) GP 1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Gigaclear) GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Gigaclear) GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (IT PPP) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Leo) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Sense) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (TLSB) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (TLSB) SLP LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital CI II Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital DF II GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital DF II Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Employee Feeder GP 1 LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital F1 GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital F2 GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital F2 GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital GP 1 LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital GP 2 LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital GP II Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield DF GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners 1 SLP EF GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners 1 SLP GP1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Infracapital Greenfield Partners 1 SLP GP2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I Employee Feeder GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I Employee Feeder LP	LPI	76%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I GP 2 Limited	OS	100%	Unit 2 Spinnaker Court 1c Becketts Place, Hampton Wick, Kingston Upon Thames, Surrey, KT1 4EQ, UK
Infracapital Greenfield Partners I GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield Partners I GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I LP	LPI	27%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield Partners I SLP LP	LPI	36%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I SLP2 GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I SLP2 LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I Subholdings GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I Subholdings GP1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Partners II LP	LPI	32%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners II Subholdings GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Partners II Subholdings GP1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Partners III GP SARL	OS	100%	6, rue Eugène Ruppert, L-245, Luxembourg
Infracapital Partners III Subholdings (Euro) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners III Subholdings (Sterling) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners III Subholdings GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Infracapital Partners III Subholdings GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners LP	LPI	33%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital RF GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Sisu GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital SLP EF II GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital SLP II GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital SLP II LP	LPI	40%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital SLP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Innisfree M&G PPP LLP	LPI	35%	Boundary House, 91-93 Charterhouse Street, London, EC1M 6HR, UK
Innisfree M&G PPP LP	LPI	62%	Boundary House, 91-93 Charterhouse Street, London, EC1M 6HR, UK
Invesco Managed Growth Fund (UK)	U	20%	Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK
LF Prudential European QIS Fund	OS	92%	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential Japanese QIS Fund	OS	98%	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential North American QIS Fund	OS	96%	65 Gresham Street, London, EC2V 7NQ, UK
LF Prudential Pacific Markets Trust Fund	OS	98%	10 Fenchurch Avenue, London, EC3M 5AG, UK
LF Prudential UK Growth QIS Fund	OS	97%	65 Gresham Street, London, EC2V 7NQ, UK
Lion Credit Opportunity Fund Public Limited Company - Credit Opportunity Fund XV	OS	100%	53 Merrion Square South, Dublin 2, D02 PR63, Ireland
London Stone Investments F3 Employee Feeder GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 I Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 II Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 SP GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G (Guernsey) Limited	OS	100%	Dorey Court, Admiral Park, St Peter Port, GY1 2HT, Guernsey

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G (Lux) Investment Funds 1 - M&G (Lux) European Strategic Value Fund	OS	71%	49 Avenue J.F. Kennedy, L-1855, Luxembourg
M&G Alternatives Investment Management Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Asia Property Fund	OS	57%	16, Boulevard Royal, Luxembourg, L-2449, Luxembourg
M&G Corporate Bond Fund	OS	32%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Credit Income Investment Trust plc	OS	25%	Beaufort House, 51 New North Road, Exeter, EX4 4EP, UK
M&G Dividend Fund	OS	58%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Episode Macro Fund	OS	21%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G European Credit Investment Fund	OS	42%	80, route d'Esch, L-1470, Luxembourg
M&G European High Yield Credit Investment Fund	OS	80%	80, route d'Esch, L-1470, Luxembourg
M&G European Loan Fund Ltd	OS	23%	Block D, Iveagh Court, Harcourt Road, Dublin, 2 Ireland
M&G European Property Fund SICAV-FIS	OS	44%	34-38, Avenue de la Liberté, L-1930, Luxembourg
M&G European Select Fund	OS	41%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Financial Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Founders 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G General Partner Inc.	OS	100%	Walker House, 87 Mary Street, Grand Cayman, KY1 9002, Cayman Islands
M&G Gilt & Fixed Interest Income Fund	OS	51%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G IMPPP 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G International Investments Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G International Investments S.A.	OS	100%	16, Boulevard Royal, Luxembourg, L-2449, Luxembourg
M&G International Investments Switzerland AG	OS	100%	Talstrasse 66, 8001 Zurich, Switzerland
M&G Investment Funds (10) - M&G Absolute Return Bond Fund	OS	51%	10 Fenchurch Avenue, London, EC3M 5AG, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Investment Funds (10) - M&G Positive Impact Fund	OS	42%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (4) - M&G Episode Allocation Fund	OS	22%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (7) - M&G Global Convertibles Fund	OS	66%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Management Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investments (Americas) Inc.	OS	100%	251 Little Falls Drive, Wilmington, DE, 19801, USA
M&G Investments (Australia) Pty Ltd	OS	100%	Level 16, Grosvenor Place, 225 George Street, Sydney, NSW 2000, Australia
M&G Investments (Hong Kong) Limited	OS	100%	6th Floor, Alexander House, 18 Chater Road, Central, Hong Kong
M&G Investments (Singapore) Pte. Ltd.	OS	100%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
M&G Investments Japan Co., LTD.	OS	100%	9/F Shiroyama Trust Tower, 4-3-1 Toranomon, Minato-ku, Tokyo 105-6009, Japan
M&G FA Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Luxembourg S.A.	OS	100%	16, Boulevard Royal, Luxembourg, L-2449, Luxembourg
M&G Management Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Pan European Select Smaller Companies Fund	U	25%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G PFI 2018 GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G PFI 2018 GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G PFI 2018 GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G PFI Carry Partnership 2016 LP	LPI	25%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G PFI Partnership 2018 LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Platform Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Prudential Insurance Company Limited	OS	100%	PO Box 34, St Martin's House, St Peter Port, GY1 4AU
M&G Prudential Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G RE Espana, 2016, S.L.	OS	100%	Calle Fortuny, 6 - 4 A, 28010, Madrid, Spain
M&G RE UKEV (GP1) LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RE UKEV 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RE UKEV 1-A LP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Real Estate Asia Holding Company Pte. Ltd.	OS	67%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
M&G Real Estate Asia PTE. Ltd.	OS	67%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
M&G Real Estate Debt Finance VI Designated Activity Company	OS	46%	4th Floor, 76 Lower Baggot Street, Dublin 2, D02 Ek81, Ireland
M&G Real Estate Funds Management SARL	OS	100%	16, Boulevard Royal, Luxembourg, L-2449, Luxembourg
M&G Real Estate Japan Co., Ltd.	OS	100%	9/F Shiroyama Trust Tower, 4-3-1 Toranomon, Minato-ku, Tokyo 105-6009, Japan
M&G Real Estate Korea Co., Ltd.	OS	67%	Jongno 1-ga, Kyobo Building, Seoul, Korea
M&G Real Estate Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Real Estate UK Enhanced Value LP	LPI	50%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Real Estate UKEV (GP) LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RED Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II GP Limited	OS	100%	Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, GY1 1WG, Guernsey
M&G RED II SLP GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II SLP LP	LPI	28%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III GP Limited	OS	100%	Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, GY1 1WG, Guernsey
M&G RED III SLP GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III SLP LP	LPI	25%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED SLP GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RPF GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G RPF Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RPF Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Securities Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G SIF Management Company (Ireland) Limited	OS	100%	78, Sir John Rogerson's Quay, Dublin 2, D02 RK57, Ireland
M&G Specialty Finance Fund (GP) Sàrl	OS	100%	51, Avenue J.F. Kennedy, L-1855 Luxembourg
M&G Specialty Finance Fund Carry Interest Partnership (GP) Sàrl	OS	100%	51, Avenue J.F. Kennedy, L-1855 Luxembourg
M&G UK Companies Financing Fund II LP	LPI	48%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Property Fund	OS	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G UK Property GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Property Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Property Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Residential Property Fund	LPI	58%	34-38, avenue de la Liberté, L-1931, Luxembourg
M&G UKCF II GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UKEV (SLP) General Partner LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UKEV (SLP) LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Manchester JV Limited	OS	50%	40 Broadway, London, SW1H 0BU, UK
Manchester Nominee (1) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
MCF S.r.l.	LPI	45%	Via Romagnosi 18/a, 00196 Roma, Italy
Minster Court Estate Management Limited	OS	56%	10 Fenchurch Avenue, London, EC3M 5AG, UK
NAPI REIT, Inc	OS	99%	300 E Lombard Street, Baltimore, MD 21202, USA
Oaktree Business Park Limited	OS	14%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Old Kingsway LP	LPI	100%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Optimus Point Management Company Ltd	OS	58%	Barrat House Cartwright Way, Bardon Hill, Coalville, LE67 1UF, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Pacus (UK) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PGDS (UK One) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PGF Management Company (Ireland) Limited	OS	50%	5 George's Dock, Dublin 1, D01 X8N7, Ireland
PPM America Private Equity Fund III LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund IV LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund V LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund VI LP	LPI	40%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund VII LP	LPI	46%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM Capital (Holdings) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PPM Funds - PPM Core Plus Fixed Income Fund	OS	99%	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM Funds - PPM Credit Fund	OS	99%	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM Funds - PPM Floating Rate Income Fund	OS	99%	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM Funds - PPM High Yield Core Fund	OS	99%	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM Funds - PPM Small Cap Value Fund	OS	97%	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM Funds - PPM Strategic Income Fund	OS	88%	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM Managers GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
PPM Managers Partnership CI VII (A) LP	LPI	25%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
PPM Ventures (Asia) Limited (In liquidation)	OS	100%	Gloucester Tower, 15 Queens Road, Central, Hong Kong
PPMC First Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Property Partners (Two Rivers) Limited	OS	50%	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Prudential / M&G UKCF GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential/M&G UK Companies Financing Fund LP	LPI	34%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Corporate Pensions Trustee Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Credit Opportunities GP S.a.r.l	OS	100%	1, Rue Hildegard von Bingen, L-1282 Luxembourg
Prudential Credit Opportunities SCSp	OS	100%	1, Rue Hildegard von Bingen, L-1282 Luxembourg
Prudential Distribution Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Dynamic 0-30 Portfolio	OS	23%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 10-40 Portfolio	OS	28%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 20 - 55 Portfolio	OS	35%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 40-80 Portfolio	OS	34%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 60-100 Portfolio	OS	30%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic Focused 0-30 Portfolio	OS	53%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic Focused 20 - 55 Portfolio	OS	34%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Equity Release Mortgages Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Financial Planning Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential GP Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Greenfield GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield LP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield SLP GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Group Pensions Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Holborn Life Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential International Assurance plc	OS	100%	Montague House, Adelaide Road, Dublin 2, D02 K039, Ireland
Prudential International Management Services Limited	OS	100%	Montague House, Adelaide Road, Dublin 2, D02 K039, Ireland
Prudential Investment (Luxembourg) 2 S.a.r.l.	OS	100%	34-38, Avenue de la Liberté, L-1930, Luxembourg
Prudential Lifetime Mortgages Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Lifetime Mortgages Limited	PS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Loan Investments 1 S.A.R.L	OS	100%	1, Rue Hildegard von Bingen, L-1282 Luxembourg
Prudential Loan Investments GP S.A.R.L	OS	100%	1, Rue Hildegard von Bingen, L-1282 Luxembourg
Prudential Loan Investments SCSp	OS	100%	1, Rue Hildegard von Bingen, L-1282 Luxembourg
Prudential Mortgages Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Pensions Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Polska sp. z.o.o	OS	100%	02-670 Warszawa, Pulawska 182, Poland
Prudential Portfolio Management Group Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Portfolio Managers (South Africa) (Pty) Limited	OS	50%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
Prudential Portfolio Managers (South Africa) (Pty) Limited	A Class OS	75%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
Prudential Portfolio Managers Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Properties Trusty Pty Limited	OS	100%	Darling Park Tower 2, 201 Sussex Street, Sydney, NSW, 1171, Australia
Prudential Property Investment Managers Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Property Investments Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Property Investments Limited	PS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Protect Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 3 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Retirement Income Limited (in liquidation)	OS	100%	c/o Mazars LLP, 90 St. Vincent Street, Glasgow, G2 5UB, UK
Prudential Retirement Income Limited (in liquidation)	PS	100%	c/o Mazars LLP, 90 St. Vincent Street, Glasgow, G2 5UB, UK
Prudential Trustee Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate General Partner Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Limited Partnership	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Services Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Unit Trusts Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Venture Managers Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prutec Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PVM Partnerships Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Randolph Street LP	LPI	100%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Rift GP 1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Rift GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
ScotAm Pension Trustees Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Scottish Amicable Finance Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Holdings Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Life Assurance Society	No share capital	100%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Pensions Investments Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Sealand (No 1) Limited	OS	100%	Lime Grove House, Green Street, St Helier, JE1 2ST
Sealand (No 2) Limited	OS	100%	Lime Grove House, Green Street, St Helier, JE1 2ST
Sectordate Ltd	OS	33%	5th Floor Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Selly Oak Shopping Park (General Partner) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Selly Oak Shopping Park (Nominee 1) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Selly Oak Shopping Park (Nominee 2) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Selly Oak Shopping Park Limited Partnership	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Silverfleet Capital 2004 LP	LPI	100%	1 Royal Plaza, St Peters Port, GY1 2HL, Guernsey
Silverfleet Capital 2005 LP	LPI	100%	1 Royal Plaza, St Peters Port, GY1 2HL, Guernsey
Silverfleet Capital 2006 LP	LPI	100%	1 Royal Plaza, St Peters Port, GY1 2HL, Guernsey
Silverfleet Capital 2009 LP	LPI	100%	1 Royal Plaza, St Peters Port, GY1 2HL, Guernsey
Silverfleet Capital 2011/12 LP	LPI	100%	1 Royal Plaza, St Peters Port, GY1 2HL, Guernsey
Silverfleet Capital II WPLF LP	LPI	100%	1 Royal Plaza, St Peters Port, GY1 2HL, Guernsey
Smithfield Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
SMLLC	LPI	100%	1209 Orange Street, Wilmington, DE 19801, USA
St Edward Homes Limited	OS	50%	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
St Edwards Strand Partnership	OS	50%	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
Stableview Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Staple Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Car Auction Unit Trust	OS	50%	Dorey Court, Admiral Park, St. Peter Port, GY1 2HT, Guernsey

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
The First British Fixed Trust	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Greenpark (Reading) Limited Partnership	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Heights Management Company Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The St Edward Homes Partnership	OS	50%	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
The Strand Property Unit Trust	LPI	50%	Liberte house, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey
The Two Rivers Trust	OS	50%	Liberte house, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey
Three Snowhill Birmingham S.a.r.l.	OS	100%	5, rue Guillaume Kroll, L-1882, Luxembourg
Two Rivers LP	LPI	50%	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Two Snowhill Birmingham S.a.r.l.	OS	100%	5, rue Guillaume Kroll, L-1882, Luxembourg
Wessex Gate Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Westwacker Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Wynnefield Private Equity Partners II, L.P.	LPI	99%	1209 Orange Street, Wilmington, DE 19801, USA