

**Pearl Group Holdings (No.1) Limited**

**(the "Company" or "PGH1")**

**Summary of the business discussed at the meeting between the holders (the "Bondholders") of the £500,000,000 6.5864 per cent. Fixed/Floating Perpetual Reset Capital Securities (the "Tier 1 Bonds") of the Company and Management (as defined below) of the Company**

**convened**

**for 12.15 p.m. (London time) on 6 May 2009**

**at the offices of Herbert Smith**

**In attendance:**

Jonathan Moss, Simon Smith and Jane MacLeod ("Management") and Bondholders.

- Management took Bondholders through the presentation which had been distributed to Bondholders at the meeting and which is available on the website of Pearl Group Limited ("PGL").
- Following the presentation, Management opened the floor to Questions and Answers. The following sets out the main issues raised at the meeting reflecting the Question and Answer format and where relevant, includes follow-up information.
- These notes are not a verbatim record of the meeting.
- Defined (capitalised) terms are explained at the end of this document.
- Information in this summary is given as at 26 June 2009. The Company is under no obligation to update this information after that date.

**Questions relating to the Alternative Coupon Satisfaction Mechanism**

- Q1. Could the Company provide documentary evidence showing that the Company was required to make the changes to the ACSM; that is, not the rationale for the way the changes were structured, but that it had been necessary to undertake any changes to the ACSM in the first instance?
- A: Management agreed to provide details of the rationale for the amendment of the ACSM. These are set out below.

The effect of Condition 8 (d) of the original Terms and Conditions was that following the takeover of Resolution plc, that company ceased to be the Ultimate Owner (defined as 'the ultimate holding company of the Group'). Condition 8(d) provided that the operation of the ACSM should be suspended and the suspension was activated by a notice dated 2 May 2008. Condition 8(d) then provides that unless a 'Permitted Restructuring Arrangement' was put in place within 6 months, an independent investment bank (approved by the Trustee) should be appointed by the Issuer to determine which amendments (if any) to the Terms and Conditions, the Trust Deed and any other relevant documents are

appropriate in order to (aa) preserve substantially the economic effect, for the Noteholders, of a holding of the Tier 1 Bonds prior to the suspension and (bb) to replicate the ACSM in the context of the capital structure of the new Ultimate Owner.

In this case, a 'Permitted Restructuring Arrangement' could not be implemented as the definition of that term in the Terms and Conditions assumed that the new Ultimate Owner had listed shares. This is not the case for the new ultimate owner, PGL. Accordingly, the ACSM was suspended and the Tier 1 Bonds and the Trust Deed were amended as determined by Lehmans in accordance with Condition 8(d).

Q2. Can Bondholders be shown the opinion Lehmans provided in connection with the amendments to the ACSM?

A: As is normal with opinions from professional advisors, the opinion restricts disclosure to the addressees (PGH1 and the Trustee) without the prior consent of Lehmans.

Q3. Has the Company sought consent from Lehmans to release the opinion to the Bondholders?

A: It is not expected that the administrators of Lehmans would consent to this in the current circumstances, however since the meeting the Company has requested the administrators to consent to the disclosure of the opinion. No response has yet been received.

Q4. Was the trustee of the Tier 1 Bonds represented at the time?

A: We believe the trustee was separately advised by Allen & Overy.

Q5. Did the trustee make the Company aware of the Bondholders' concerns?

A: The Trustee advised the Company on 31 July 2008 that it had received calls from Bondholders who had expressed concern as to what would happen to the Tier 1 Bonds and whether the Bondholders would suffer as a result. In November and December 2008 the Trustee informed the Company about various Bondholders concerns relating to the proposed changes in the capital structure.

Q6. At the time of giving their opinion on the amendments to the ACSM were Lehmans aware of the Restructuring?

A: Lehmans were not aware of this as the decision to restructure was taken some time after Lehman's opinion had been issued.

Key Dates:

1 May 2008	Acquisition of Resolution plc by Impala Holdings Limited becomes effective
2 May 2008	Notice given that operation of ACSM was

	suspended
16 June 2008	Date of Lehman's opinion
30 July 2008	Signing of the Trust Deed amending and supplementing the original Trust Deed and the Terms and Conditions.
1 August 2008	Date on which the ACSM amendments became effective. Suspension lifted.
27 October 2008:	First Bondholder call
	Proposed restructuring announced
22 December 2008	Board meeting of PGH1 at which the Reorganisation was approved
31 December 2008	Date on which the Reorganisation became effective.

Q7. In light of the Restructuring, should a revised opinion have been obtained?

A: As the restructuring did not result in a change to the Ultimate Owner, it was not necessary to revisit the amended ACSM mechanism nor was it required by the terms of the Tier 1 Bonds.

Q8. Which entity is the Ultimate Owner in the Group?

A: At the time of the acquisition, the Ultimate Owner was Resolution Plc. It is now PGL – this is reflected in the revised Terms and Conditions.

Q9. The Financial Times of the 26 March 2009 states that PGL considered the ACSM to be unworkable.

A: The Group believes that the ACSM is workable and that the Financial Times article was inaccurate.

Q10. Would the Group still be able to operate the ACSM if a company in the Group sought a listing?

A: If a listing were sought, the operation of the ACSM would need to be considered depending on the level at which the listing operated. No decision as to whether to seek a listing has been made.

### **Questions relating to the Restructuring**

Q11. Who was on the Board of the Company in July 2008 and who had approved the Restructuring?

A: The directors at the time the ACSM was amended were Jonathan Moss, Simon Smith and Ian Maidens. The directors of the Company at the time the Restructuring was approved were Jonathan Moss, Simon Smith, Sandra Huckle (Director, Group Finance) and Helen Maxwell (Group Tax Director). Messes

Moss and Smith are also directors of Impala but they recused themselves from the decision by Impala to approve the Restructuring.

Q12. Are there any non-executive directors on the Board of PGH1?

A: There have not been non-executives on the Board of PGH1 since the acquisition became effective on 1 May 2008.

Q13. Please explain the technical rationale for needing to transfer assets from PGH1.

A: It is a directive requirement that a parent company (that is, a company with subsidiaries) with listed securities, must prepare consolidated financial statements under IFRS. Prior to the acquisition of PGH1 by Impala, the former Pearl Group followed UK GAAP accounting standards. In order for the whole Pearl Group (post takeover) to prepare consistent accounts it was necessary to adopt either UK GAAP or IFRS. The conversion process to IFRS would not have been possible for the former Pearl group companies in the available time. However since the entity accounts for the former Resolution companies were prepared under UK GAAP, consistent reporting under UK GAAP would be achievable for the whole group for the year ended 31 December 2008 provided PGH1 had no subsidiaries as at year end.

Q14. Following the Restructuring, can cash move directly from the life companies to Impala?

A: There is no restriction in the Terms & Conditions on intra-group loans. This was also the position prior to the Restructuring.

Q15. How was the interest rate payable on the Inter-Company Loan determined?

A: Management replied in the meeting that they had looked at the funding costs that the enlarged Pearl Group had recently incurred and that the interest rate (6 month LIBOR + 3.42%) represented the average cost of the Pearl Group's recent acquisition funding costs. Following the meeting this response has been reviewed further and it is apparent that the answer was inaccurate. In fact, the interest rate applicable to the Inter-Company Loan is higher than the internal funding cost normally applied to intra-group loans and was determined by reference to market spreads for unsecured debt of this type at the time, having considered the rates on comparable senior debt issued by major UK financial sector institutions around that time.

Q16. The Inter-Company Loan is an unsecured loan. During discussions regarding the interest rate applicable to the Inter-Company Loan, did the parties give consideration to the need for additional terms?

A: Legal advice was taken to ensure the arm's length nature of the transaction. The PGH1 Board also considered whether the Restructuring was in the best interests of the Company and whether it would prejudice other stakeholders.

Q17. Was any valuation work done on the Inter-Company Loan?

A: Valuation work was undertaken by the Company on both the consideration for the transaction and the Inter-Company Loan. The valuation of the transaction was based on the embedded value of the relevant companies as determined by Ernst & Young as part of the year end audit process. The interest rate applicable to the Inter-Company Loan was determined by reference to market spreads for unsecured debt of this type at the time, having considered the rates on senior debt recently issued by major UK financial sector institutions.

Q18. Was any valuation work undertaken on the creditworthiness of Impala?

A: Following the Restructuring, Impala has the same assets as had previously been owned by the Company together with the associated cash-flows. Details of the Impala and PGH1 balance sheets are set out in the bondholder presentation.

Q19. Will the Group make available a copy of the Inter-Company Loan Agreement?

A: This is an internal agreement which is not for public disclosure. The key terms of the Loan Agreement were set out in the presentation made to Bondholders on 6 May 2009 and which is available at [http://www.pearlgrouplimited.co.uk/pdfs/Debt%20Investors/PGH%20\(No.1\)%20bondholder%20presentation\\_6%20May%202009.pdf](http://www.pearlgrouplimited.co.uk/pdfs/Debt%20Investors/PGH%20(No.1)%20bondholder%20presentation_6%20May%202009.pdf).

Q20. Were the ultimate shareholders of PGH1 involved in the decision?

A: There was no shareholder involvement in respect of the decision to approve the Restructuring. The decision was driven purely by executive management, although Pearl Group's shareholders were aware that the matter was being considered.

Q21. To which group undertakings has Impala lent £281 million as at 31 December 2008 as shown in the unaudited Impala balance sheet set out in the presentation?

A: Management made the point that inter-company loans were not an unusual feature of run-off life companies. Impala has made loans to each of Pearl Group Management Services and Pearl Life Holdings Limited which relate to the true-up arrangements with Royal London following the sale of the new business capabilities of the former Resolution Group. These loans match the settlement obligations that Impala has to Royal London under the true ups, and therefore Impala's net position in relation to the true-ups is nil.

Q22. What assets were included in PGH1's current assets of £200 million at 31 December 2008 as shown in the unaudited Impala balance sheet set out in the presentation?

A: The £200 million includes £129 million of intercompany receivables owed by Impala and Pearl Life Holdings Limited and £71 million of interest rate swap collateral.

Q23. Are there any intercreditor deeds at the level of Impala?

A: No.

### **Questions relating to the deferral of the Coupon**

Q24. Did the Company receive any feedback from the FSA in respect of the coupon deferral?

A: No. The FSA saw the decision to defer the coupon as a commercial matter for the Company to determine.

Q25. Did the FSA impose any requirements for the Company to look at the circumstances behind deferring the coupon within a specific timeframe?

A: No, the FSA did not impose any conditions in relation to the deferral.

Q26. Was there any market consultation prior to the decision to defer the coupon?

A: The Company obtained external legal advice, but not market advice.

Q27. Was the decision of the Board as to the various steps taken unanimous?

A: The decision of the Board was unanimous.

Q28. Was the Company concerned with the precedent it was perceived to be creating in respect of its relationships with the institutional market?

A: Such a question is speculative, and the Company's intention in the meeting with the Bondholders was to provide them with more factual information in relation to the Company in order to facilitate a better relationship.

Q29. Is the Group in breach of the financial covenants imposed by the external bank funding agreements?

A: The external bank funding arrangements are with Pearl Group's shareholders and none of PGL, Impala, PGH1 or any other subsidiary of PGL is a party to those funding agreements. Nevertheless there are covenants contained in those agreements which relate to Pearl Group. There were no breaches of those covenants as at 25 March 2009 when the decision to defer the coupon was made, nor have there been any such breaches since.

Q30. As per the announcement, the Company had sufficient resources to pay the coupon but nevertheless decided to defer payment, The Bondholders were left without any recourse to the Group.

A: The provisions of the Tier 1 Bonds which allow the Company to defer the coupon have not changed since the takeover. Management's view was that due to the level of uncertainty facing the Company at the time (which uncertainty still continues), it was in the best interest of the Company and the Group to reserve capital until those uncertainties resolved themselves.

Q31. The Company had stated that it decided to defer the coupon on the grounds of increased prudence, however many other banks and insurance companies were going through difficult times and PGH1 stood alone in having deferred the coupon.

A: Noted, however the Company's Board was required to act in the best interest of the Company and, in determining what was in the Company's best interest, the Board was entitled to take into account, among other things, the Terms and Conditions, the purpose for which the Bonds were issued and the need to conserve cash at the level of the life companies within the Group.

### **Questions relating to the possible tender offer**

Q32. Why did PGH1 specify a 12.5p tender offer price in the announcement related to the deferral of the coupon?

A: At the time of the announcement the Group's ultimate shareholders were in discussions as to possible restructuring and refinancing of the Group, as set out in the announcement of 8 April 2009. These discussions are ongoing and it is therefore not possible at this stage to provide further details. As stated in the announcement of 25 March, the price of any such offer would reflect the market and company conditions at the time. As at 25 March 2009 Bloomberg quoted the last traded price at 12.5 pence.

Q33. The coupon payment would have amounted to £33m whilst any tender offer made at the level indicated would cost the Company over £60m. If the stated reason for deferring the coupon was for increased levels of prudence, how could the company then afford £60m for the tender offer?

A: The maths quoted is correct. However, it is unlikely that a tender offer would be made in isolation, and there are potentially a number of different scenarios that could underpin the decision to make a tender offer and none of these have crystallised as yet. Any decision whether to make a tender offer would have to be taken as part of the Group's wider strategy relating to its capital structure going forward. The Company's rationale in referring to the potential price for a tender offer was to avoid the creation of an artificial market in the Tier 1 Bonds.

Q34. Has the Company created a false market by referring to a potential price for such a tender?

A: No. The Company stands by its obligations to ensure that relevant information is made publicly available to all Bondholders. Although the statement in the 25 March 2009 announcement did refer to the then current market price of 12.5p, it also stated that any such offer would reflect market and company conditions at the time.

Q35. A series of statements were made by Bondholders that they believed the announcement regarding the possible tender offer was unhelpful, particularly

given the deferral of the coupon, and that the decision not to pay the coupon was prejudicial to Bondholders.

- A: Under the terms of the Tier 1 Bonds, the Company has the discretion to defer the coupon. Each year the Board is required to consider payment of the coupon and that decision must be made in keeping with the directors' obligation to act in the best interests of the Company taking into account the factors outlined in [Q31]. Management notes the view of Bondholders expressed at the meeting that the reference to 12.5p in the announcement was not helpful, but rejects the views also expressed at the meeting that the reference to 12.5p was misleading and has depressed the price of the Tier 1 Bonds. At the time of the announcement, the Company was concerned that mention of a possible tender offer without reference to a price could be misleading.

### **Questions relating to other matters**

Q36. If there were a listing of a company in the Group, could a dividend be paid by that company?

- A: As a result of the deferral of the coupon, there is a dividend stopper at the level of PGH1. If a different company in the Group were to list, the Terms and Conditions would not prohibit that company paying dividends.

Q37. Which vehicle would be listed if the group decided to launch an IPO?

- A: Any such listing would most likely be of shares in PGL or in any new ultimate holding company in the Group, however no decision as to whether to seek a listing has been made.

Q38. Does the Group have any holdings in the Tier 1 Bonds?

- A: Pearl Assurance Plc acquired a small holding (face value of £17 million) of the Tier 1 Bonds in November 2007. In addition, the Pearl Group Pension Scheme has historically held a small amount of the Tier 1 Bonds.

Q39. Do any of the Group's shareholders hold any Tier 1 Bonds?

- A: Management does not have information about holdings outside the Group.

Q40. Was a dividend paid in 2008 by Phoenix Life Limited?

- A: A £30m dividend was paid in 2008.

Q41. Does the Board of the Company have any economic interests in PGH1?

- A: Yes, in so far as they are employees of the Group.

Q42. Did the FSA extend the waivers in relation to the Impala C shares that enabled these to be counted as core Tier 1 capital?



A: The terms of the C shares have been amended so that the waiver is no longer required.

Q43. Were the recent changes in the shareholding structure of Impala recorded at Companies House?

A: The changes to the Articles of Impala made in November 2008 were filed at Companies House as required. As at the date of the meeting, the changes made at the end of April 2009 had not been filed, however this has now been done.

Q44. Why did JP Morgan Cazenove resign as calculation agent?

A: The Company understands that JP Morgan Cazenove no longer offer this service generally.

Q45. Are there any pension liabilities in Pearl Group?

A: The Resolution Group Pension Scheme has an FRS17 surplus as at December 2008. The participating employers are the Company and Pearl Group Management Services. The Pearl Group Pension Scheme is separate and has no contractual right of contribution from Impala and its subsidiaries.

Q46. Have any Tier 1 Bonds been redeemed or re-purchased by the Issuer?

A: No

Q47. Can the Group issue new bonds?

A: No consideration has been given to issuing new bonds either by the Company or elsewhere in the Group, however it is permitted by the Terms and Conditions of the Tier 1 Bonds.

Q48. Has UBS been mandated as financial advisor to the Company?

A: The Company is in discussion with UBS as to the terms of their appointment and related mandate.

Q49. Was the Company in discussions with its auditors as to whether it was still a going concern?

A: The accounts have not yet been signed by the auditors but have been prepared. The auditors would comment on such an issue if it were a concern to them.

Q50. Would any such going concern qualification be in breach of obligations under the external banking facilities?

A: It would.

In addition, a series of statements were made by Bondholders expressing concern at the amount of information available from the Company.

The Company intends to engage further with Bondholders once the current discussions as to the restructuring of the Group have been concluded.

## **DEFINED TERMS:**

<b>ACSM</b>	Alternative Coupon Satisfaction Mechanism as described in the Terms and Conditions.
<b>Impala</b>	Impala Holdings Limited
<b>Inter-Company Loan</b>	The loan from PGH1 to Impala representing the consideration paid for the transfer of assets from PGH1 to Impala under the Restructuring.
<b>Lehmans</b>	Lehman Brothers International Europe
<b>Pearl Group</b>	PGL and its subsidiaries
<b>PGH1 or the Company</b>	Pearl Group Holdings (No 1) Limited
<b>PGL</b>	Pearl Group Limited
<b>Restructuring</b>	The sale by PGH1 of all the shares in its subsidiaries which took effect as at 31 December 2008
<b>Terms and Conditions</b>	The Terms and Conditions of the Tier 1 Bonds as set out in the original prospectus dated 15 November 2005 (and which is available at <a href="http://www.pearlgrouplimited.co.uk/pdfs/Debt%20Investors/Prospectus.pdf">http://www.pearlgrouplimited.co.uk/pdfs/Debt%20Investors/Prospectus.pdf</a> ). The Terms and Conditions were amended with effect from 1 August 2008 and the amended Terms and Conditions are also available at <a href="http://www.pearlgrouplimited.co.uk/pdfs/Debt%20Investors/termsandconditions.pdf">http://www.pearlgrouplimited.co.uk/pdfs/Debt%20Investors/termsandconditions.pdf</a>