

Registered number: 3588063

**Pearl Group Management Services Limited**  
(Formerly Resolution Management Services Limited)  
(A member of the Pearl Group)

**Report and Accounts**  
**for the year ended 31 December 2008**

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**Pearl Group Management Services Limited  
(Formerly Resolution Management Services Limited)**

**Report and accounts for the year ended 31 December 2008**

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**Pearl Group Management Services Limited  
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**Directors**

The directors who served during the year were:

Mr M Eaton

Mr A Kassimiotis (appointed 1 May 2008)

Mr J Smith (appointed 1 May 2008)

Mr J Moss (appointed 1 May 2008)

Mr W Downing (resigned 19 December 2008)

Mr B Meehan (resigned 1 May 2008)

Mr M Biggs (resigned 1 May 2008)

Mr J Newman (resigned 1 May 2008)

**Secretary**

Pearl Group Secretariat Services Limited

**Registered office**

1 Wythall Green Way  
Wythall Green  
Birmingham  
B47 6WG

**Auditors**

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

## **Directors' report**

The directors present their report and accounts for the year ended 31 December 2008.

### **Results and dividends**

In the year the Company made a profit on ordinary activities after taxation of £13,626k (2007: £5,226k profit). The directors do not recommend the payment of a dividend (2007: £nil).

### **Principal activities**

The principal activity of Pearl Group Management Services Ltd (PGMS) is the provision of a full range of management services, including governance and policy administration services, to life assurance companies that are also within the Pearl Group.

PGMS carries out the management services under arm's length, per policy based, Management Services Agreements. PGMS has outsourced some of the services it provides to third parties.

PGMS has employees based in Wythall, Glasgow and London.

### **Corporate activity**

Prior to 1 May 2008 the Company's ultimate parent undertaking was Pearl Group Holdings (No.1) Limited (formerly Resolution plc).

On 1 May 2008 Pearl Group Holdings (No.1) Limited was acquired by Impala Holdings Limited, a subsidiary undertaking of Pearl Group Limited, and from this date Pearl Group Limited became the Company's ultimate parent undertaking.

On 1 May 2008, the Company sold its rights to administer the policies of Phoenix Life Assurance Limited, Scottish Provident International Life Assurance Limited and the protection policies of Scottish Mutual Assurance Limited and Scottish Provident Limited to The Royal London Mutual Insurance Society Limited for consideration of £67.0m. A profit on disposal of £62.7m was recognised.

In September 2008 the Company announced that it is closing its Glasgow office and relocating its operations to the Company's offices at Wythall, near Birmingham. The accounts for the year to 31 December 2008 include exceptional costs within administrative expenses in respect of the estimated redundancy costs to be incurred and the anticipated costs associated with the lease of the office premises in Glasgow. Refer to Note 17 for further details.

### **Material developments**

The Company has been advised by the directors of the ultimate parent company, Pearl Group Limited (PGL) and PGL's 75% owned subsidiary, Impala Holdings Limited (Impala), that discussions are taking place between the FSA, the Group's investors and other key stakeholders regarding the appropriate capital structure for the group, given the extreme market turbulence experienced in 2008 and 2009. These discussions include options to restructure the sources of finance for the Group.

These discussions are designed to facilitate an alignment of the obligations of the Group's investors with the availability of funding from the Group and to thus enable the Group to meet its obligations in the foreseeable future.

Given the financial position of the Company the directors do not expect the results of these discussions to have a material effect on the operations of the Company. In this regard, the directors of the Company

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have considered the position of its parent including potential contagion effects on the Company in respect of the recoverability of intra-group loans and the impact of any breach in its Group Capital Adequacy (GCA) requirements.

In November 2008 the Group informed the FSA that it was in technical breach of its GCA obligations. The Company is required to ensure that its capital resources are sufficient to meet the GCA requirements at all times. To rectify the situation a capital restructuring was undertaken in the Group and, in addition the Company applied for, and was granted, a waiver from the FSA which provides relief in respect of one of the capital restrictions within the GCA calculation and enables the Company to meet its GCA requirements. The Company has continued to meet GCA requirements since that date.

Following the technical breach of GCA requirements, the FSA issued an Own Initiative Variation of Permission (OIVoP) which inter alia, requires cash payments and asset transfers from regulated entities within the PGL Group to be disclosed to, and approved by, the FSA. This affords the Company liquidity protection whilst the OIVoP remains in force. The directors have reasonable grounds to believe that the OIVoP will remain in place as required by the FSA for the foreseeable future.

**Business review – performance in the year**

The headline financials for the year were as follows:

|   | 2008<br>£000 | 2007<br>£000 | Change<br>% |
|---|--------------|--------------|-------------|
| Operating income                              | 349,941      | 338,648      | 3.33        |
| Operating profit before exceptional items     | 9,692        | 47,716       | -79.69      |
| Exceptional items                             | 11,959       | (38,516)     | -131.05     |
| Profit on ordinary activities before taxation | 26,583       | 11,953       | 122.40      |
| Profit after tax                              | 13,626       | 5,226        | -160.73     |
| Shareholders' funds                           | 70,162       | 67,815       | 3.46        |

The results of the Company show a profit before taxation of £26,583k (2007: £11,953k), including an operating profit before exceptional items of £9,692k (2007: £47,716). The key components of operating profit are amounts charged to Group companies in respect of the provision of administrative and management services, amounts paid to outsourcers to perform payment execution and other services in respect of the different life assurance companies in the Group and staff, project and other administrative expenses incurred by the Company.

**Business review – financial position at year end**

The net current assets of the Company as at 31 December 2008 were £107,359k (2007: £45,388k). The key driver behind the change in these is the £62.7m profit on disposal of assets to Royal London. The increase in the net assets reflects the total recognized gain arising in the year of £2,347k (2007: £5,689k).

In addition to operating balances there are a number of items of judgement within the PGMS balance sheet which include pension related balances and provisions.

*Pension Scheme*

In 2005 the majority of the risks and benefits of the PGL pension scheme (formerly the Resolution Group pension scheme) were transferred to PGMS and Pearl Group Holdings (No.1) Ltd, who are joint principal employers of the scheme. Certain of the With Profit funds of Phoenix Life Limited retain certain obligations relating to longevity risk. The surplus (being the excess of the market value of the scheme

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over the present value of its obligations) and the deferred income (which is released over the remaining term of the Britannic MSA) as at 31 December 2008 were £32,760k (2007: £35,784k) and £12,900k (2007: £15,400k) respectively. Refer to notes 15 and 19 for further detail.

*Onerous Contract Provision*

In 2005, PGMS set up an onerous contract provision of £17,846k for the management services agreement with the former Britannic service companies. £8,420k of this provision has been released in the year (2007: £3,226k) and it totalled £6,200k at year end (2007: £14,620k).

As set out in Note 17 to these accounts; provisions of £31,290k have been recognised to cover organisational re-structures within the Group.

**Going concern**

Note 26 to the financial statements along with the section headed 'Principal risks and uncertainties facing the business' within the directors' report summarises the Company's risk and capital management objectives and policies together with its financial risks.

The directors have prepared cash flow forecasts for the Company for the foreseeable future. The key assumptions that have been taken into account by the directors in the cash flow forecasts include the following:

- That the Company will be able to draw on the financial support of its parent, Impala Holdings Limited to enable it to meet its financial obligations as they fall due (note 25).

After making reasonable enquiries and taking into consideration the above matter, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

**Subordinated debt**

On 21 September 2007 PGMS entered into a £110m credit facility agreement with Pearl Group Holdings (No.1) Limited (formerly Resolution plc). Cash can be drawn down by PGMS after giving 5 days written notice and is not repayable to Pearl Group Holdings (No.1) Limited within two years of drawdown. Repayments are not allowed at any time without the express written consent of the FSA.

In total £30m has been drawn down and this remains outstanding at the year end. Interest of £2,421k on the loan was charged by Pearl Group Holdings (No.1) Limited to PGMS in accordance with the agreement.

**Principal risks and uncertainties facing the business**

The Pearl Group applies a consistent methodology for the identification, assessment, management and reporting of risk that includes a high level framework for the management of key risks within each business unit.

This approach is supported with a detailed operational risk self assessment process that requires monthly assessment of operational and internal control risks. The findings from these frequent assessments are reported to PGMS senior management as part of the operational risk dashboard.

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The principal risks and uncertainties facing PGMS are:

i. Expense risk

PGMS carries the expense risk of reducing its expenses in line with per policy based management services agreements. To generate ongoing profitability PGMS has to deliver efficiencies to at least match policy run-off.

PGMS manages this risk through a culture of cost management across the business with robust business plans, monitored by detailed reporting and regular re-forecasting. A specific expense risk new for 2008 and going forward relates to the closure of Glasgow operations as discussed on page 3.

ii. Liquidity risk

PGMS has exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash-flow requirements and this is monitored on an ongoing basis.

Key components of the monitoring framework include daily monitoring of cashflow and regular reviews with the parent company to identify cash-flow requirements.

iii. Legislative & regulatory risk

PGMS is subject to regulation by the FSA. The FSA has broad regulatory powers dealing with all aspects of financial services including, among other things, the authority to grant and, in specific circumstances, to vary or cancel permissions to carry out particular activities. The FSA is responsible for ensuring that the Pearl Group treats customers fairly, including the investigation of past marketing and sales practices.

The Directors are also responsible for ensuring that PGMS maintains an appropriate level of capital to enable them to meet liabilities arising from reasonably foreseeable extreme events. PGMS has implemented a system of regular reviews to monitor the level of capital in the short to medium term taking account of the anticipated future developments of PGMS.

**Future developments**

The directors continue to review the operations of PGMS with a view to its future developments. The profitability of PGMS is dependent on its ability to manage its costs in line with the management services contracts as the policies run off. This may involve further internal restructuring of its operations.

**Employees**

PGMS is an equal opportunity employer and encourages, through the ongoing development of its human resources policies, the recruitment and retention of a fully diverse workforce. Full and fair consideration is given to applications from, and the continuing employment and training of, disabled people.

All employment and training policies are fully compliant with appropriate UK employment legislation and regulatory obligations. HR practice is audited regularly and reviewed at Board level.

PGMS wishes to be considered an employer of choice with a commitment to recognising, retaining and appropriately rewarding its staff. To help achieve this, the HR function aims to deliver robust and value enhancing people frameworks and benchmarks itself against other companies to ensure best practice.

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Reward strategies are linked to market comparators, personal performance, and overall company performance. In addition PGMS adopts a "total reward" approach which considers financial, fixed and variable, and non-financial elements of valuing the contributions of employees.

Trade unions and elected bodies are recognised for consultation and negotiation purposes with well documented procedures and policies surrounding these. In addition a meaningful commitment is made to employee communication with several forums and communication channels being regularly maintained to ensure all employees are regularly updated on business progress.

**Creditor Payment Policy**

PGMS payment policy in respect of suppliers providing goods and services is to either agree the terms of payment with suppliers when placing orders, or, where appropriate, accept the suppliers' standard terms and to pay in accordance with its contractual and other legal obligations.

PGMS does not follow any code or statement on payment practice, but it is PGMS policy to pay all of its suppliers on 30 days terms. As at 31 December 2008, the amounts owed to trade creditors represented 30 days goods and services (2007: 30 days).

**Directors**

Messrs B Meehan, J Newman, and M Biggs were also directors of Pearl Group Holdings (No.1) Ltd and Messrs J Moss and J Smith, were also directors of Impala Holdings Ltd. Their interests in the shares of the holding company, emoluments and pension benefits are disclosed in the accounts of Pearl Group Holdings (No.1) Ltd and Impala Holdings Ltd.



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**Directors' remuneration**

Director's remuneration is disclosed in Note 2.

**Directors' Indemnity**

Pearl Group Limited has agreed to provide an indemnity to certain persons within the Pearl Group. These persons include nominated directors and secretaries, subsidiary directors, subsidiary secretaries, alternate directors and approved persons, being persons in relation to whom the Financial Services Authority has given its approval under section 59 of the Financial Services and Markets Act 2000 ("FSMA") for the performance of a controlled function. This indemnity will cover all losses, costs and expenses incurred by an indemnified person incurred in the exercise, execution and discharge of his duties, or connected to the same, to the fullest extent permitted, consistent with the Companies Act 2006 and the FSA Rules, provided that if such indemnified person is also entitled to be indemnified under the terms of the Articles of another Pearl Group company, or pursuant to the terms of a indemnity granted by another Pearl Group Company, then the indemnified person must first claim under that indemnity. Directors, alternate directors and company secretaries of Pearl Group Holdings (No. 1) Limited and former subsidiaries of that company (including members of the Scottish Provident Fund Supervisory Committee) may still benefit from the provisions of an earlier Deed of Indemnity entered into by that company.

**Disclosure of information to the auditors**

In the case of each of the persons who were directors of the Company at the date of approval of this report:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware; and
- each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

**Auditors**

The Company has passed elective resolutions in accordance with the Companies Act 1985 to dispense with the obligation to appoint auditors annually.

By order of the directors

Director  
27 June 2009



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**Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgments and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- (d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Auditors' Report**

### **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PEARL GROUP MANAGEMENT SERVICES LIMITED**

We have audited the Company's financial statements for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out on pages 14 to 17.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

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**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.



Ernst & Young LLP  
Registered auditor  
London

17 June 2009

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**Profit and loss account**

**Profit and Loss Account for the year ended 31 December 2008**

|  | Note | 2008<br>£'000 | 2007<br>£'000 |
|--|------|---------------|---------------|
| Operating income   |      | 349,941       | 338,648       |
| Staff costs  | 2    | (92,053)      | (143,347)     |
| Depreciation   |      | (174)         | (912)         |
| Amortisation of goodwill                                 | 8    | (392)         | (294)         |
| Impairment of goodwill                                   |      | -             | (25,300)      |
| Other operating charges                                  | 9    | (250,130)     | (183,179)     |
| Income from pension scheme indemnity                     | 16   | -             | 58,000        |
| Other operating income                                   | 15   | 2,500         | 4,100         |
| Operating profit   | 3    | 9,692         | 47,716        |
| Exceptional items  | 4    | 11,959        | (38,516)      |
| Profit on ordinary activities before interest & taxation |      | 21,651        | 9,200         |
| Interest receivable and similar income                   | 5    | 7,353         | 3,423         |
| Interest payable and similar charges                     | 6    | (2,421)       | (670)         |
| Profit on ordinary activities before taxation            |      | 26,583        | 11,953        |
| Taxation on profit on ordinary activities                | 7    | (12,957)      | (6,727)       |
| Profit on ordinary activities after taxation             |      | 13,626        | 5,226         |

All figures relate to continuing operations.

**Statement of Total Recognised Gains and Losses**

**Statement of Total Recognised Gains and Losses for the year ended 31 December 2008**

|   | 2008<br>£'000 | 2007<br>£'000 |
|---|---------------|---------------|
| Profit for the financial year   | 13,626        | 5,226         |
| Net actuarial (losses)/gains of defined benefit pension scheme  | (15,675)      | 661           |
| Deferred tax for the financial period on items credited/(debited) to the statement of total recognised gains and losses | 4,396         | (198)         |
| Total recognised gains for the year   | 2,347         | 5,689         |
| Total gains recognised since last annual report (note 23)   | 2,347         | 5,689         |

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**Balance Sheet**

**Balance Sheet – as at 31 December 2008**

|  | Note | 2008<br>£'000  | 2007<br>£'000  |
|--|------|----------------|----------------|
| <b>Fixed Assets</b>                                  |      |                |                |
| Goodwill   | 8    | -              | 4,267          |
| Tangible fixed assets                                | 10   | 954            | 1,505          |
| Investment in subsidiary undertakings                | 11   | 8,715          | 8,715          |
| Other investments                                    | 12   | 12,403         | 48,243         |
|  |      | <u>22,072</u>  | <u>62,730</u>  |
| <b>Current assets</b>                                |      |                |                |
| Debtors  | 13   | 201,894        | 148,799        |
| Cash at bank and in hand                             |      | 9              | 926            |
|  |      | <u>201,903</u> | <u>149,725</u> |
| Creditors: amounts falling due in less than one year | 14   | (94,544)       | (104,337)      |
| <b>Net current assets</b>                            |      | <u>107,359</u> | <u>45,388</u>  |
| Total assets less current liabilities                |      | 129,431        | 108,118        |
| Deferred income                                      | 15   | (20,442)       | (15,400)       |
| Provisions for liabilities & charges                 | 17   | (41,587)       | (30,687)       |
| Subordinated debt                                    | 18   | (30,000)       | (30,000)       |
| <b>Net assets excluding pension asset</b>            |      | <u>37,402</u>  | <u>32,031</u>  |
| Pension asset  |      |                |                |
| - PGL pension scheme surplus                         | 19   | 32,760         | 35,784         |
| <b>Net assets including pension asset</b>            |      | <u>70,162</u>  | <u>67,815</u>  |
| <b>Capital and reserves</b>                          |      |                |                |
| Called up share capital                              | 22   | 38,613         | 38,613         |
| Capital reserve                                      |      | 10,000         | 10,000         |
| Profit and loss account                              | 23   | 21,549         | 19,202         |
|  |      | <u>70,162</u>  | <u>67,815</u>  |

The information contained in pages 14 to 39 form part of these accounts.

The accounts were approved and authorised for issue by a Committee of the Board, acting on authority of the Board, on 27 June 2009 and were signed on its behalf by;

  
**Director**

## **Notes to the financial statements**

### **1. Accounting policies**

#### **a) Basis of preparation**

The accounts and notes have been prepared under the historical cost convention and in accordance with applicable accounting standards and the accounting policies set out below.

The directors' report on pages 3 to 8 summarises the activities of the Company, discusses the principal risks and uncertainties it faces and comments on material developments. Note 26 to the financial statements along with the section headed 'Principal risks and uncertainties facing the business' within the directors' report summarises the Company's risk and capital management objectives and policies together with its financial risks.

The directors have prepared cash flow forecasts for the Company for the foreseeable future. The key assumptions that have been taken into account by the directors in the cash flow forecasts include the following:

- That the Company will be able to draw on the financial support of its parent, Impala Holdings Limited to enable it to meet its financial obligations as they fall due (note 25).

After making reasonable enquiries and taking into consideration the above matters, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The Company is exempt from the obligation to prepare and deliver group accounts under the provisions of Section 228 of the Companies Act 1985. Details of the ultimate parent entity are given in Note 28.

#### **b) Operating income and other operating charges**

Operating income comprises recharges made to the subsidiaries of Impala Holdings Ltd for the provision of services under the terms of the Management Services Agreements between those parties.

Other operating charges comprises those expenses (excluding staff costs and depreciation) incurred by PGMS during the course of undertaking services for Impala Holdings Ltd and its subsidiaries.

Certain items have been disclosed in a single line on the face of the Profit and Loss account as exceptional items. These are items that management consider to be sufficiently significant to warrant separate disclosure.

#### **c) Cash flow statement**

The Company has taken advantage of the exemption by FRS1 (revised 1996) to subsidiary undertakings where 90% or more of the voting rights are controlled within the group, by not preparing a cash flow statement. Details of the ultimate holding company are given in Note 28 of the accounts.

#### **d) Financial income and costs**

Interest income is recognised in the Profit and Loss account as it accrues.

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All interest bearing loans and borrowings are initially recognised at net proceeds. After initial recognition debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debts of the period.

Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount.

**e) Pension costs**

**Defined contribution plans**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account as incurred.

**Defined benefit schemes**

The net surplus or deficit in respect of the defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The net surplus comprises the surplus in the defined benefit scheme after deducting the amount that cannot be recovered (the irrecoverable surplus) through reduced contributions in the future or from refunds from the scheme that have been agreed by the trustees.

The movement in the surplus/deficit is analysed between the service cost, the net interest gain or loss, curtailment gains/losses and actuarial gains and losses. The latter are accounted for in the statement of total recognised gains and losses.

The cost of changes in longevity assumptions is recoverable from the with profit funds of a fellow subsidiary undertaking to the extent that related cash contributions are made to the pension scheme. These are recognised when the related cash contributions are agreed with the Trustees of the pension scheme.

**f) Finance and Operating Leases**

Finance lease assets are capitalised in the Balance Sheet and subsequently depreciated according to their useful economic lives. Interest payments made during the period for the financing of the lease are charged to the profit and loss account according to the terms of the lease.

Payments made under operating leases are charged to the profit and loss account in equal instalments according to the terms of the lease.

**g) Goodwill**

Goodwill is stated at cost less accumulated amortisation and impairment. The cost of goodwill is determined as being the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities.

Goodwill is reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or circumstances indicate that the carrying value may not be recoverable.

Amortisation is provided to write off the cost by equal instalments over its estimated useful economic life as follows:

|                                    |         |
|------------------------------------|---------|
| Goodwill on Protection Sales Force | 4 years |
|------------------------------------|---------|



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**h) Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation. Such cost includes costs directly attributable to making the asset capable of operating as intended

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

|                         |          |
|-------------------------|----------|
| Furniture and equipment | 10 years |
|-------------------------|----------|

**i) Impairment review of tangible fixed assets**

Tangible fixed assets are tested for impairment only where there is an indication that impairment may have occurred. The need for any impairment write down is assessed by comparing the carrying value of the asset against the higher of net realisable value and value in use. The value in use is determined by discounting estimated future cash flows.

**j) Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax in the future.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse.

**k) Investments**

Investments in subsidiary companies are stated at cost less provision for impairment.

The carrying values of investments in subsidiary undertakings are written down by the amount of any impairment in the underlying net assets of the subsidiary and the loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to an investment in a subsidiary undertaking may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the investment's recoverable amount. The carrying amount of the investment will only be increased up to the amount that it would have been had the original impairment not been recognised.

Cash held on deposit that can not be drawn down within twenty four hours is recorded as an investment.

**l) Provisions**

Provisions are recognised when PGMS has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the future expected cash flows at a pre tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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A provision for restructuring is recognised when PGMS has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

A provision for an onerous contract is recognised when the expected benefits to be derived by PGMS are lower than the unavoidable cost of meeting its obligations under the contract.

**2. Staff costs**

|   | <b>2008</b>   | <b>2007</b>    |
|---|---------------|----------------|
|   | <b>£'000</b>  | <b>£'000</b>   |
| Staff costs:  |               |                |
| Wages and salaries                                    | 74,398        | 123,941        |
| Social security costs                                 | 8,028         | 8,973          |
| Defined benefit pension scheme service cost (Note 19) | 1,800         | 1,061          |
| Other pension costs                                   | 6,829         | 5,707          |
| Share option costs                                    | 998           | 3,665          |
|   | <u>92,053</u> | <u>143,347</u> |

**Employee Information**

The average monthly number of persons (including executive directors) employed by the Company during the year was:

|  | <b>2008</b>   | <b>2007</b>   |
|--|---------------|---------------|
|  | <b>Number</b> | <b>Number</b> |
| Average number of employees:           |               |               |
| Sales and distribution                 | 87            | 28            |
| Customer Servicing                     | 145           | 1,207         |
| Investment, finance and administration | 674           | 896           |
|  | <u>906</u>    | <u>2,131</u>  |

The primary reason for the reduction in employees between 2007 and 2008 is the transfer of staff to Capita as part of the outsourcing agreement which commenced in August 2007.

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**Directors' emoluments**

|  | <b>2008</b><br><b>£'000</b> | <b>2007</b><br><b>£'000</b> |
|--|-----------------------------|-----------------------------|
| Emoluments (excluding pension contributions and awards under share option schemes and other long term incentive schemes) | <u>1,718</u>                | <u>905</u>                  |
| Contributions to money purchase schemes  | <u>66</u>                   | <u>34</u>                   |

|   | <b>2008</b><br><b>Number</b> | <b>2007</b><br><b>Number</b> |
|---|------------------------------|------------------------------|
| Number of Directors who:                        |                              |                              |
| Are members of a defined benefit pension scheme | <u>1</u>                     | <u>1</u>                     |
| Are members of a money purchase pension scheme  | <u>2</u>                     | <u>1</u>                     |

|  | <b>2008</b><br><b>£'000</b> | <b>2007</b><br><b>£'000</b> |
|--|-----------------------------|-----------------------------|
| Highest paid Director's remuneration:  |                             |                             |
| Aggregate amount of emoluments and awards under long term incentive schemes (excluding pension contributions, share options gains and share awards arising from long term incentive schemes) | <u>751</u>                  | <u>625</u>                  |
| Contributions to money purchase schemes  | <u>12</u>                   | <u>34</u>                   |

On 30 July 2008 Pearl Group Limited created an employee benefit trust, the Pearl Group limited Employee Benefit Trust (the "Trust"). The Trust was created in order to motivate and retain the Group's Directors and employees, each of whom is a potential beneficiary of the Trust. Amounts contributed to the Trust are included in the amount expensed for wages and salaries.

Pearl Group Limited has recommended to the trustee of the Trust that a sum of £10m be provisionally allocated to an incentive pool. The trustee, after considering a letter of wishes from Pearl Group Limited has allocated amounts into discretionary sub-funds for the benefit of particular Directors and their families. Amounts in the sub-funds have been included in the relevant Director's emoluments for the purposes of these accounts.

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**3. Operating profit**

Profit on ordinary activities before taxation is stated after charging:

|                                   | <b>2008</b><br><b>£'000</b> | <b>2007</b><br><b>£'000</b> |
|-----------------------------------|-----------------------------|-----------------------------|
| Remuneration of Ernst & Young LLP |                             |                             |
| Statutory audit                   | 62                          | 100                         |
| Depreciation of tangible assets:  |                             |                             |
| Owned                             | 174                         | 912                         |
| Amortisation of goodwill          | 392                         | 294                         |
| Operating leases:                 |                             |                             |
| Land and buildings                | 9,891                       | 8,591                       |

**4. Exceptional items**

|  | <b>2008</b><br><b>£'000</b> | <b>2007</b><br><b>£'000</b> |
|--|-----------------------------|-----------------------------|
| Merger related costs                     | (3,489)                     | (26,229)                    |
| Capita migration                         | (20,418)                    | (22,473)                    |
| Pearl 100 Day programme                  | (26,862)                    | -                           |
| Profit on sale of assets to Royal London | 62,728                      | -                           |
| Release of deferred income (note 15)     | -                           | 10,100                      |
| Profit on disposal of fixed assets       | -                           | 86                          |
|  | <u>11,959</u>               | <u>(38,516)</u>             |

**Merger related costs**

On 1<sup>st</sup> September 2006 Pearl Group Holdings (No. 1) Ltd (formerly Resolution plc) acquired the UK and offshore life insurance business of Abbey National plc. £3.5m of integration costs were incurred in 2008 (2007: £17.6m). Furthermore, £8.6m of costs were incurred in 2007 in relation to the merger of the Britannic Group and Resolution Life Group Ltd. There were no further costs incurred in 2008 for this.

**Capita migration**

A 12 year contract was signed between PGMS and Capita Life and Pensions Ltd on 30<sup>th</sup> May 2007 to provide outsourcing services covering all customer services and IT operations, as well as some facilities, risk, audit and compliance services. The contract start date was 1<sup>st</sup> August 2007. At the end of the year PGMS had incurred £20.4m of migration costs (2007: £22.5m).

**Pearl 100 day programme**

On 1<sup>st</sup> May 2008 Pearl Group acquired Resolution plc. In the months following the acquisition a total of £26.9m of integration costs were incurred. These costs were primarily the costs of settling the employee share schemes of Resolution plc which were paid out on the acquisition of Resolution Group by Pearl Group, but also included costs associated with integrating the two companies.

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**Profit on Disposal of Assets to Royal London**

On 1 May 2008, the Company transferred its broker sales force and sold its rights to administer the policies of Phoenix Life Assurance Limited, Scottish Provident International Life Assurance Limited and the protection policies of Scottish Mutual Assurance Limited and Scottish Provident Limited to The Royal London Mutual Insurance Society Limited for consideration of £67.0m. A profit on disposal of £62.7m was recognised.

**5. Interest receivable and similar income**

|   | <b>2008</b><br><b>£'000</b> | <b>2007</b><br><b>£'000</b> |
|---|-----------------------------|-----------------------------|
| Interest receivable on current accounts and bank deposits         | 1,846                       | 3,423                       |
| Interest receivable on intercompany loan with Impala Holdings Ltd | 5,507                       | -                           |
|   | <u>7,353</u>                | <u>3,423</u>                |

**6. Interest payable and similar charges**

|  | <b>2008</b><br><b>£'000</b> | <b>2007</b><br><b>£'000</b> |
|--|-----------------------------|-----------------------------|
| Interest on subordinated debt payable to Pearl Group Holdings (No.1) Ltd in year | <u>2,421</u>                | <u>670</u>                  |

**7. Taxation on the profit for the year**

(a) The charge for taxation in the profit and loss account comprises:

|  | <b>2008</b><br><b>£'000</b> | <b>2007</b><br><b>£'000</b> |
|--|-----------------------------|-----------------------------|
| Group relief                                   | 8,148                       | (11,392)                    |
| Adjustments in respect of prior years          | 7,241                       | (5)                         |
| Total current tax (note 7(b))                  | <u>15,389</u>               | <u>(11,397)</u>             |
| Deferred tax                                   |                             |                             |
| Origination and reversal of timing differences | (2,432)                     | 19,407                      |
| Effects of changes in tax rate                 | -                           | (1,283)                     |
| Total tax charge                               | <u>12,957</u>               | <u>6,727</u>                |

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**(b) Factors affecting the tax charge for the year**

The tax assessed for the year is higher (2007: lower) than the tax standard rate of corporation tax in the UK. The differences are explained below:

|   | <b>2008</b><br><b>£'000</b> | <b>2007</b><br><b>£'000</b> |
|---|-----------------------------|-----------------------------|
| Profit on ordinary activities before tax                  | 26,583                      | 11,953                      |
| Expected tax charge at 28.5% (2007: 30%)                  | <u>7,576</u>                | <u>3,586</u>                |
| Expenses not deductible for tax purposes                  | 12                          | 978                         |
| Capital allowances for the year in excess of depreciation | 257                         | 460                         |
| Other timing differences                                  | (409)                       | (21,013)                    |
| Adjustments to tax charge in respect of previous periods  | 7,241                       | (4)                         |
| Share scheme movements                                    | (2,178)                     | (432)                       |
| Tax losses not utilised                                   | -                           | 4,830                       |
| Movement on pension scheme                                | 1,625                       | 198                         |
| Chargeable gains  | <u>1,265</u>                | <u>-</u>                    |
|   | <u><u>15,389</u></u>        | <u><u>(11,397)</u></u>      |

**(c) Deferred tax balances**

The deferred tax included in the balance sheet is as follows:

|  | <b>2008</b><br><b>£'000</b> | <b>2007</b><br><b>£'000</b> |
|--|-----------------------------|-----------------------------|
| Accelerated capital allowances                   | 5,237                       | (4,421)                     |
| Other timing differences                         | (3,628)                     | 8,464                       |
| Defined benefit pension surplus (note 19)        | <u>(12,740)</u>             | <u>13,916</u>               |
|  | <u><u>(11,131)</u></u>      | <u><u>17,959</u></u>        |
| Included within:                                 |                             |                             |
| Debtors (note 13)/(Creditors) (note 14)          | 1,609                       | 4,043                       |
| Defined benefit pension scheme surplus (note 19) | <u>(12,740)</u>             | <u>13,916</u>               |
|  | <u><u>(11,131)</u></u>      | <u><u>17,959</u></u>        |

Movement in the deferred tax balances is outlined below:

|  | <b>£'000</b>           |
|--|------------------------|
| At 1 January 2008  | (17,959)               |
| Other movements  | (21)                   |
| Amount charged to profit and loss account                  | 2,453                  |
| Amount charged to Statement of recognised gains and losses | <u>4,396</u>           |
| At 31 December 2008  | <u><u>(11,131)</u></u> |

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**(d) Factors that may affect future tax charges**

As the deferred tax asset reverses it would be available for offset against the company's taxable trading profit in future periods.

The Company has further unrecognised deferred tax assets outlined below, which have not been recognised as they are considered unlikely to reverse in the foreseeable future.

|                        | <b>2008</b><br><b>£000</b> | <b>2007</b><br><b>£000</b>  |
|------------------------|----------------------------|-----------------------------|
| Losses                 | <u>10,179</u>              | <u>5,782</u>                |
| <b>8. Goodwill</b>     |                            |                             |
|                        |                            | <b>2008</b><br><b>£'000</b> |
| <b>Cost</b>            |                            |                             |
| As at 1 January 2008   |                            | 4,561                       |
| Disposals              |                            | <u>(4,561)</u>              |
| As at 31 December 2008 |                            | <u>-</u>                    |
| <b>Amortisation</b>    |                            |                             |
| As at 1 January 2008   |                            | (294)                       |
| Charge for year        |                            | (392)                       |
| Disposals              |                            | <u>686</u>                  |
| As at 31 December 2008 |                            | <u>-</u>                    |
| <b>Net book value</b>  |                            |                             |
| As at 31 December 2007 |                            | <u>4,267</u>                |
| As at 31 December 2008 |                            | <u>-</u>                    |

On 1<sup>st</sup> May 2008, PGMS sold the Broker Sales Force to The Royal London Mutual Insurance Society Limited. This is further discussed in Note 4.

**9. Other operating charges**

As referred to in the director's report the Company is closing its Glasgow office and relocating its operations to the Company's offices at Wythall, near Birmingham. The accounts for the year to 31 December 2008 include exceptional costs within administrative expenses totalling £19.1m (2007: £nil) in respect of the estimated redundancy costs to be incurred and the anticipated costs associated with the lease of the office premises in Glasgow.

Also within other operating charges are costs relating to provisions as discussed in Note 17.

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**10. Tangible fixed assets**

|                        | <b>Fixtures,<br/>fittings, and<br/>equipment</b> |
|------------------------|--|
|                        | <b>£'000</b>                                     |
| <b>Cost</b>            |  |
| As at 1 January 2008   | 1,750  |
| Additions              | 19   |
| Disposals              | (436)  |
| As at 31 December 2008 | <u>1,333</u>                                     |
| <b>Depreciation</b>    |  |
| As at 1 January 2008   | (245)  |
| Charge for the year    | (174)  |
| Disposals              | 40   |
| As at 31 December 2008 | <u>(379)</u>                                     |
| <b>Net book value</b>  |  |
| As at 31 December 2007 | <u>1,505</u>                                     |
| As at 31 December 2008 | <u>954</u>                                       |

**11. Investment in subsidiary undertakings**

At the year end the Company held 100% of the ordinary share capital of the following subsidiary undertakings:

|   | <b>Country of incorporation</b> | <b>Type and proportion<br/>of shares</b> |
|---|---------------------------------|--|
| Pearl Life Services Ltd                 | United Kingdom                  | 100% Ordinary                            |
| Phoenix Life Insurance Services Ltd     | United Kingdom                  | 100% Ordinary                            |
| Phoenix Life Insurance Services 2 Ltd   | United Kingdom                  | 100% Ordinary                            |
| Phoenix Pension Trustee Services Ltd    | United Kingdom                  | 100% Ordinary                            |
| Phoenix Life Pension Trust Ltd          | United Kingdom                  | 100% Ordinary                            |
| Dom-James Ltd                           | United Kingdom                  | 100% Ordinary                            |
| Phoenix Pensions Scheme (Trustees) Ltd  | United Kingdom                  | 100% Ordinary                            |
| PGMS (Ireland) Holdings Ltd             | Eire                            | 100% Ordinary                            |
| PGMS (Glasgow) Ltd                      | United Kingdom                  | 100% Ordinary                            |
| Scottish Provident Trustees Ltd         | United Kingdom                  | 100% Ordinary                            |
| Scottish Provident Pension Trustees Ltd | United Kingdom                  | 100% Ordinary                            |
| Alba Life Trustees Ltd                  | United Kingdom                  | 100% Ordinary                            |

Under FRS 11 "Impairment of fixed assets and goodwill" the directors have reviewed all investments for impairment in light of the year end net assets of these subsidiaries and of these subsidiaries no impairment has been deemed necessary.



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**12. Other Investments**

Cash is invested in a liquidity fund managed by Ignis Asset Management which is an asset management company within the Pearl Group. Excess cash held within the current account is transferred to the liquidity fund on both long and short-term deposit and recalled as needed.

**13. Debtors**

|                                    | <b>2008</b>    | <b>2007</b>    |
|------------------------------------|----------------|----------------|
|                                    | <b>£'000</b>   | <b>£'000</b>   |
| Amounts owed by group undertakings | 128,358        | 105,525        |
| Other debtors                      | 9,793          | 4,150          |
| Prepayments                        | 1,539          | 1,698          |
| Know how fee prepayment            | 10,495         | 25,357         |
| Royal London receivable            | 50,100         | -              |
| Tax debtors                        | 1,609          | 12,069         |
|                                    | <u>201,894</u> | <u>148,799</u> |

**Know how fee prepayment**

As part of the contract with its outsourcing partner, Capita Life and Pensions Ltd, PGMS is committed to making significant payments to the outsourcer to bring their know-how to the outsourcing arrangement. The payments made by PGMS for the know-how are heavily loaded towards the beginning of the arrangement, as stipulated by the contract. The total payments to be made in respect of know-how under the contract are being charged to the profit and loss account in line with the costs incurred for the Transition and Transformation Programme over a 4 year period and accordingly a prepayment of £10,495k has been included in the balance sheet (2007: £25,357k).

**Royal London receivable**

PGMS has recognised a debtor of £50,100k for The Royal London Mutual Insurance Society Limited's share of the costs of the Capita Transition and Transformation Programme. The Royal London Mutual Insurance Society Limited has agreed to pay this fixed amount. Of the £50,100k, £20,412k has been credited to the Profit and Loss account in 2008 given that this amount of costs had already been paid out to Capita in the year. The remainder of the £50,100k has been credited to accrued income in recognition that this amount relates to costs that are yet to be incurred.

**14. Creditors: Amounts falling due within one year**

|                                    | <b>2008</b>   | <b>2007</b>    |
|------------------------------------|---------------|----------------|
|                                    | <b>£'000</b>  | <b>£'000</b>   |
| Amounts owed to group undertakings | 8,883         | 13,685         |
| Tax and social security            | 1,341         | 1,806          |
| Deferred taxation (Note 21)        | -             | 4,043          |
| Accruals                           | 48,329        | 84,647         |
| Other creditors                    | 6,303         | 156            |
| Accrued Income (Note 13)           | 29,688        | -              |
|                                    | <u>94,544</u> | <u>104,337</u> |

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**15. Deferred Income**

|   | 2008<br>£'000        | 2007<br>£'000        |
|---|----------------------|----------------------|
| <i>Deferred Income on Pension Scheme</i>        |                      |                      |
| As at 1 January 2008                            | 15,400               | 29,600               |
| Annual transfer to profit and loss account      | (2,500)              | (4,100)              |
| Exceptional transfer to profit and loss account | -                    | (10,100)             |
| As at 31 December 2008                          | <u>12,900</u>        | <u>15,400</u>        |
| <i>Other Deferred Income</i>                    |                      |                      |
| As at 1 January 2008                            | -                    | -                    |
| Deferred SLA Income                             | <u>7,542</u>         | -                    |
| As at 31 December 2008                          | <u>7,542</u>         | -                    |
| <b>Total Deferred Income 31 December</b>        | <u><b>20,442</b></u> | <u><b>15,400</b></u> |

In 2005 a deferred income provision was established to cover the service costs, net interest costs and actuarial gains and losses of the PGL pension scheme (formerly Resolution Group pension scheme) which were not recoverable from the life funds via per policy charges. The provision was recognised in line with the life of the Britannic MSA. Hewitts who are the scheme's independent actuaries advise half-yearly the amount which should be released from the provision. As at 31 December 2008, the balance of the provision was £12.9m with £2.5m being released to the Profit and Loss account in 2008. Service charges of £1.8m (See Note 2 (2007: £1.1m)) have been expensed in the Profit and Loss account in 2008. Actuarial gains or losses are shown in the Statement of Recognised Gains and Losses, so do not impact the Profit and Loss account.

As a result of the outsourcing agreement with Capita, approximately 350 members of the PGL Pension Scheme left. Due to the decrease in the number of members, the service charge for administering the Scheme also decreased. This has resulted in a one-off release of deferred income of £10.1m from the Scheme (Note 4) in 2007.

£7.5m was also received from Phoenix Life Limited in December 2008 for invoices which were not due until January 2009.

**16. Income received from pension scheme indemnity**

In accordance with an agreement dated November 2005, certain of the with profit funds of a fellow subsidiary undertaking, Phoenix Life Limited, have indemnified the Company in respect of contribution calls made by the scheme actuary in respect of the cost of changes to the pension scheme's longevity assumptions. The total amount of £58m is receivable in five equal instalments over the period to June 2012 and will be paid into the pension scheme as each instalment is received. As at 31<sup>st</sup> December 2008, £15.5m has been paid into the scheme. The outstanding balance of £40.7m forms part of amounts owed by group undertakings in Note 13.

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**17. Provision for liabilities**

|  | As at 1 <sup>st</sup><br>January<br>2008<br>£'000 | Provisions<br>raised<br>£'000 | Provisions<br>utilised<br>£'000 | As at 31 <sup>st</sup><br>December<br>2008<br>£'000 |
|--|---|-------------------------------|---------------------------------|---|
| Onerous Contract<br>MSA Provision            | 14,620  | -                             | (8,420)                         | 6,200   |
| Project Hawk<br>Provision                    | 4,072   | -                             | (3,484)                         | 588   |
| Capita Severance<br>Provision                | 10,739  | -                             | (1,697)                         | 9,042   |
| Abbey Integration<br>Provision               | -   | 9,724                         | (7,737)                         | 1,987   |
| Known Incidents<br>Provision                 | -   | 4,097                         | -                               | 4,097   |
| Group Target<br>Operating Model<br>Provision | -   | 9,098                         | -                               | 9,098   |
| Closed Property<br>Provision                 | -   | 10,028                        | -                               | 10,028  |
| Severance Provision                          | 1,256   | 2,465                         | (3,174)                         | 547   |
| <b>Total</b>                                 | <b>30,687</b>                                     | <b>35,412</b>                 | <b>(24,512)</b>                 | <b>41,587</b>                                       |

**Onerous Contract MSA Provision**

PGMS has set up an onerous contract provision for the management services agreement with the former Britannic Life companies. This reflects the fact that the contract is expected to make a loss over the 10 years, with losses in the initial years and small profits in future years. As such a provision is required under FRS 12, established by recording a charge in the profit and loss account and a corresponding liability in the balance sheet. As PGMS incurs losses in relation to the contract, the provision will be released accordingly.

£8,420k of the provision has been utilised in 2008 to reflect the benefit of a reduced liability to Capita as a result of the Royal London deal and also reflect Target Operating Model assumptions.

**Project Hawk Provision**

PGMS set up a provision in 2006 in respect of restructuring of the finance and actuarial departments within the Pearl Group Holdings (No.1) Ltd group.

£3,484k of this provision has been utilised in 2008 as the majority of the employees in scope for redundancy have been paid. As at 31 December 2008 a £588k provision remains for several employees working on projects.

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**Capita Severance Provision**

In 2007 PGMS set up a provision to reimburse Capita for redundancy and severance costs incurred by Capita for In-Scope Employees. The original contractual severance provision of £10,366k has been adjusted for the average of the most recent inflation rates of 3.7% as per the contract.

In 2008 Capita commenced their redundancy programme and as such £1,697k of the provision has been utilised. A provision of £9,042k remains as at 31 December 2008 for further redundancy costs.

**Abbey Integration Provision**

This provision relates to the remaining strands of the Abbey integration programme. £1,987k has been provided for isolation of Abbey systems as at 31<sup>st</sup> December 2008.

**Known Incidents Provision**

A provision has been raised in PGMS for the estimated cost of outsourcer incidents. These are generally inherited flaws such as data or process issues which the outsourcers need to rectify. Provision has been made for known incident costs only.

**Group Target Operating Model Provision**

A provision has been made at 31<sup>st</sup> December 2008 for the redundancy costs associated with the closure of Glasgow and the known redundancies at Wythall.

A number of roles have been identified which will not be transferring to Wythall. The redundancy costs of those roles have been compiled for calculation of the provision.

**Closed Property Provision**

An onerous contract provision in respect of a property lease has been raised due to the announcement that the Company intends to relocate some of its operations during 2009.

The lease held by PGMS, runs until the end of 2020 and has no break clauses. The onerous contract provision has been calculated based on cost estimates less estimated rental income, over the period from 2011, the expected date of closure, to 2020.

**Severance Provision**

In 2007 a provision of £1,256k was raised for severance costs for retained staff as a result of Capita outsource. At 31 December 2008, the provision was £547k and provides for the severance costs of ex-Liverpool employees.

**18. Subordinated debt**

On 21 September 2007 PGMS entered into a £110m credit facility agreement with Pearl Group Holdings (No.1) Ltd. Cash can be drawn down by PGMS after giving 5 days written notice and is not repayable to Pearl Group Holdings (No.1) Ltd within two years of drawdown. Repayments are not allowed at any time without the express written consent of the FSA.

In total £30m was drawn down to fund the purchase of the Protection Sales Force and remains outstanding at the year end. Interest of £2.4m on the loan was charged by Pearl Group Holdings (No.1) Ltd to PGMS in accordance with the agreement.

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**19. Pension commitments**

**(a) Defined contribution scheme**

PGMS participates in the defined contribution section of the PGL pension scheme. Contributions in the year ended 31 December 2008 amounted to £2,873k (2007: £4,860k).

**(b) Defined benefit scheme**

The Company and its fellow subsidiary, Pearl Group Holdings (No. 1) Limited (formerly Resolution Group plc), are joint sponsoring employers of the Scheme. The defined benefit section of the Scheme is a final salary arrangement which is generally closed to new entrants and, in respect of former members of the Phoenix Life Group pension scheme (which merged with the scheme in 2006) to future service accrual.

The valuation has been based on an assessment of the liabilities of the scheme as at 31 December 2008, undertaken by independent qualified actuaries. The present value of the defined benefit obligation and the related current service costs have been measured using the projected unit credit method. The Company's share in the net surplus before tax of the pension scheme amounts to £46m (2007: £50m).

The principal financial assumptions of the Scheme are set out below.

|  | <b>2008</b> | <b>2007</b> |
|--|-------------|-------------|
|  | <b>%</b>    | <b>%</b>    |
| Rate of long term increase in salaries   | 3.9         | 4.4         |
| Rate of increase to pensions in payment  | 2.8         | 3.4         |
| Discount rate for scheme liabilities     | 6.3         | 5.8         |
| Inflation assumption                     | 2.9         | 3.4         |
| Expected rate of return on scheme assets | 4.6         | 5.2         |

The discount rate and inflation rate assumptions used for the calculation of the liabilities have been determined by considering the shape of the appropriate yield curves and the duration of the Scheme liabilities. This method results in an equivalent single rate for both the discount and inflation rates, which is derived from the profile of projected benefit payments.

It has been assumed that post retirement mortality is in line with standard tables PXA00 with a scaling factor of 105% being applied, allowing for future improvements in line with the long cohort improvement factors, subject to a minimum improvement from 2007 onwards of 1.25% p.a. and 0.75% p.a. for males and females respectively. Under these assumptions, the average life expectancy for a member currently age 40 retiring at age 57 is 33.5 years and 34.8 years for male and female members respectively. The average life expectancy for a member currently aged 50 retiring at age 57 is 32.1 years and 34.0 years for male and female members respectively.

PGMS employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the benchmark asset allocation for the Scheme.

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The amounts recognised in the profit and loss account are as follows:

|                                      | <b>2008</b><br><b>£m</b> | <b>2007</b><br><b>£m</b> |
|--------------------------------------|--------------------------|--------------------------|
| Current service cost                 | (1)                      | (4)                      |
| Past service cost                    | (1)                      | -                        |
| Interest cost                        | (37)                     | (32)                     |
| Expected return on scheme assets     | 32                       | 34                       |
| Gains on curtailments                | -                        | 1                        |
| Changes in the irrecoverable surplus | 1                        | -                        |
|                                      | <u>(6)</u>               | <u>(1)</u>               |

The change in the irrecoverable surplus has been used to extinguish past service costs amounting to £1m (2007: £nil).

The amounts recognised in the statement of total recognised gains and losses are as follows:

|                            | <b>2008</b><br><b>£m</b> | <b>2007</b><br><b>£m</b> |
|----------------------------|--------------------------|--------------------------|
| Actuarial gains and losses | <u>(16)</u>              | <u>1</u>                 |

The net actuarial gains and losses recognised during the year comprise the following:

|   | <b>2008</b><br><b>£m</b> | <b>2007</b><br><b>£m</b> |
|---|--------------------------|--------------------------|
| Actual return less expected return on plan assets                         | 13                       | (6)                      |
| Experience losses arising on scheme liabilities                           | (3)                      | (5)                      |
| Changes in assumptions underlying the present value of scheme liabilities | 106                      | 12                       |
| Change in irrecoverable surplus   | (132)                    | -                        |
| Net actuarial (losses)/gains recognised during the year                   | <u>(16)</u>              | <u>1</u>                 |

The cumulative net actuarial losses recognised in the statement of recognised income and expense since 1 January 2004 amounts to £28m (2007: £12m).

The amounts recognised in the balance sheet are as follows:

|   | <b>2008</b><br><b>£m</b> | <b>2007</b><br><b>£m</b> |
|---|--------------------------|--------------------------|
| Market value of assets                      | 749                      | 698                      |
| Present value of defined benefit obligation | <u>(571)</u>             | <u>(648)</u>             |
| Surplus in the scheme                       | 178                      | 50                       |
| Less: Irrecoverable surplus                 | <u>(132)</u>             |                          |
| Net Surplus                                 | 46                       | 50                       |
| Deferred tax                                | <u>(13)</u>              | <u>(14)</u>              |
| Net pension asset                           | <u>33</u>                | <u>36</u>                |

The irrecoverable surplus is the amount that cannot be recovered through reduced contributions in the future or from refunds from the scheme that have been agreed by the trustees.

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The actual return on the scheme assets comprises the following:

|   | <b>2008</b> | <b>2007</b> |
|---|-------------|-------------|
|   | <b>£m</b>   | <b>£m</b>   |
| Expected return on scheme assets          | 32          | 34          |
| Actuarial gains/(losses) on scheme assets | 13          | (6)         |
|   | <u>45</u>   | <u>28</u>   |

The change in the present value of the defined benefit obligation is as follows:

|   | <b>2008</b> | <b>2007</b> |
|---|-------------|-------------|
|   | <b>£m</b>   | <b>£m</b>   |
| At 1 January  | 648         | 680         |
| Effect of changes in allocations between sponsoring employers | 15          | (32)        |
| Current service cost  | 1           | 4           |
| Past service cost   | 1           | -           |
| Interest cost   | 37          | 32          |
| Curtailments  | -           | (1)         |
| Actuarial gains   | (104)       | (7)         |
| Benefits paid   | (27)        | (28)        |
| At 31 December  | <u>571</u>  | <u>648</u>  |

The defined benefit obligation arises from plans that are wholly funded.

The change in the fair value of the scheme assets is as follows:

|   | <b>2008</b> | <b>2007</b> |
|---|-------------|-------------|
|   | <b>£m</b>   | <b>£m</b>   |
| At 1 January  | 698         | 730         |
| Effect of changes in allocations between sponsoring employers | 15          | (32)        |
| Expected return on scheme assets                              | 32          | 34          |
| Actuarial losses on scheme assets                             | 13          | (6)         |
| Contributions by the employer                                 | 18          | -           |
| Benefits paid   | (27)        | (28)        |
| At 31 December  | <u>749</u>  | <u>698</u>  |

The distribution of the scheme assets at the end of the year was as follows:

|                 | <b>2008</b> | <b>2007</b> |
|-----------------|-------------|-------------|
|                 | <b>£m</b>   | <b>£m</b>   |
| Corporate bonds | 655         | 585         |
| Properties      | 81          | 101         |
| Cash            | 13          | 12          |
|                 | <u>749</u>  | <u>698</u>  |

Contributions totalling £12m are expected to be paid into the scheme in 2009.

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Table of historical information

|   | 2008<br>£m | 2007<br>£m | 2006<br>£m | 2005<br>£m |
|---|------------|------------|------------|------------|
| Fair value of scheme assets                     | 749        | 698        | 730        | 732        |
| Defined benefit obligation                      | (571)      | (648)      | (680)      | (678)      |
|   | 178        | 50         | 50         | 54         |
| Less: Irrecoverable surplus                     | (132)      | -          | -          | -          |
| Net surplus                                     | 46         | 50         | 50         | 54         |
| Experience gains/(losses) on scheme assets      | 13         | (6)        | (11)       | 58         |
| Experience (losses)/gains on scheme liabilities | (3)        | (5)        | 4          | (1)        |

**20. Share options**

The share-based payment arrangements in existence during the year are set out below. The acquisition of the Company by Impala Holdings Limited on 1 May 2008 triggered vestings across the Group's share schemes. Information on the changes and the effect of this is given for each scheme.

For share options granted before 7 November 2002, the recognition and measurement principles of FRS 20 Share-based payment have not been applied, as permitted by the transitional provisions in FRS 20.

The weighted average share price of the Company in the period to the date of acquisition of the Group by Impala Holdings Limited amounted to 698.0p (2007: 659.5p).

The total expense for the year arising from share-based payment transactions was £0.5m (2007 £2.2m), of which £0.1m (2007 £2.2m) related to equity-settled share-based payments and £0.4m (2007 £nil) to cash-settled share-based payments.

This is split across the schemes as follows:

|                                      | 2008<br>£'000 | 2007<br>£'000 |
|--------------------------------------|---------------|---------------|
| Save As You Earn Scheme (SAYE)       | 91            | 411           |
| Executive Share Option Scheme (ESOS) | 8             | 49            |
| Long Term Incentive Plan (LTIP)      | 357           | 1,642         |
| Share Matching Plan (SMP)            | 30            | 99            |
|                                      | 486           | 2,201         |

In addition, the Company compensated SAYE option holders in cash for the loss of benefit in respect of lapsed share options and bore the cost of income tax and national insurance that would otherwise have fallen on option holders from the early vesting of the share option schemes. The cost of this to the Company was £1.6m before tax relief.

**(a) Save As You Earn scheme (SAYE)**

Existing employees who were SAYE option holders at the date of acquisition of the Group by Impala Holdings Limited were able to exercise their share options under the scheme early. The share option entitlement was pro-rated for the proportion of the vesting period that had elapsed and the amount of saving contributions that had accrued at that date. The remaining proportion of the share options lapsed. The grant was equity settled and the shares issued on exercise by the option holder were transferred



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immediately to Impala Holdings Limited for a cash consideration of £7.20 per share except where option holders opted to receive loan notes issued by Impala Holdings Limited.

The SAYE scheme allowed participating employees to save up to £250 each month over a period of three or five years. Employees were eligible to participate in a SAYE arrangement if they had been employed for the six months prior to the financial year end preceding the grant date of the relevant arrangement.

Under the SAYE arrangement, participants remaining in employment at the end of the three year or five year savings period were entitled to use their savings to purchase shares of the Company at the option price. Employees leaving for certain reasons were able to use their savings to purchase shares within six months of their leaving.

The option price was determined by the Company, which could apply up to 20% discount on market price, taken as the average market value on the three dealing days preceding the date of invitation. As at 31 December, the following options were outstanding:

| Grant date | Maturity date:<br>(exercise period<br>ordinarily lasts six<br>months from this<br>date) | Exercise price<br>(pence) | Number of 5p ordinary shares |                  |
|------------|---|---------------------------|------------------------------|------------------|
|            |   |                           | 2008                         | 2007             |
| April 2003 | June 2008   | 107.57                    | -                            | 427,791          |
| April 2004 | June 2009   | 246.62                    | -                            | 64,033           |
| April 2005 | June 2008   | 342.82                    | -                            | 102,169          |
| April 2005 | June 2010   | 342.82                    | -                            | 62,616           |
| May 2006   | June 2009   | 454.76                    | -                            | 269,625          |
| May 2006   | June 2011   | 454.76                    | -                            | 90,738           |
| May 2007   | June 2010   | 515.00                    | -                            | 392,565          |
| May 2007   | June 2012   | 515.00                    | -                            | 266,521          |
|            |   |                           | <u>-</u>                     | <u>1,676,058</u> |

The following table sets out the number and the weighted average exercise prices (WAEP) for the movements in employee share options during the year.

|                             | 2008<br>No | 2008<br>WAEP<br>(pence) | 2007<br>No     | 2007<br>WAEP<br>(pence) |
|-----------------------------|------------|-------------------------|----------------|-------------------------|
| Outstanding as at 1 January | 854,176    | 370.88                  | 923,282        | 268.25                  |
| Granted during the year     | -          | -                       | 621,062        | 515.00                  |
| Forfeited during the year   | (198,654)  | 470.77                  | (351,140)      | 446.63                  |
| Exercised during the year   | (606,713)  | 285.64                  | (287,022)      | 220.96                  |
| Expired during the year     | (48,809)   | 512.08                  | (52,006)       | 413.52                  |
| Outstanding at 31 December  | <u>-</u>   | <u>-</u>                | <u>854,176</u> | <u>370.88</u>           |
| Exercisable at 31 December  | <u>-</u>   | <u>-</u>                | <u>47,645</u>  | <u>450.00</u>           |

**(b) Executive Share Option Scheme (ESOS)**

Existing employees who were executive share option holders as at the date of acquisition of the Group by Impala Holdings Limited became eligible to exercise their share options early. The normal performance conditions were waived in accordance with their terms, resulting in the options vesting in full. The shares issued on exercise by the option holder were either transferred immediately following their issue to Impala Holdings Limited or cancelled for a cash consideration of £7.20 per share. Former employees who are executive share option holders as at the date of acquisition were offered similar terms to those offered to existing employees, except that the options were not exercisable prior to the third anniversary of the date of grant and performance conditions were required to be measured for unvested options. The grant was equity settled and the charge to the income statement was calculated using the grant date fair value of each share option grant.

From 1999 to 2005, share options were granted to senior management with a vesting period of three years from the date of grant and with an exercise period of seven years from the earliest date of vesting. The exercise price of options under the Resolution 1998 Approved Share Option Scheme was determined as the average of the mid-market price on the three days prior to the date of grant.

In the case of the Resolution 1998 Unapproved Share Option Scheme, the exercise price was determined by considering the mid-market price on the date of grant. If the mid-market price was lower than that determined in the preceding three days for the Approved options, the same exercise price was set for the Unapproved options as was set for the Approved ones; but if the mid-market price on the date of grant was higher than that set for the Approved options, the exercise price set for the Unapproved options was that higher mid-market price. No grant has ever been made under the scheme at less than market value.

Options granted in 1999 and 2000 have performance conditions based on a fixed three year performance period. Both performance conditions must be met in order for the options to vest. The first performance condition requires Embedded Value Added by New Business to match or exceed the Retail Price Index by 3% per annum over a three year period; this performance condition for the 3 years ended 31 December 2007 has been met. The second performance condition requires the total shareholder return (TSR) to match or exceed the median of the FTSE 250, excluding investment trusts, over any 3 year period; this performance condition was met for the 3 years ended 31 December 2007.

Options granted in 2003, 2004 and 2005 met a performance condition by achieving an increase in operating earnings per share (EPS), before exceptional items and excluding any longer term return from the shareholders' retained capital (SRC), that matched or exceeded RPI + 6% over the 3 years ended 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

Since 2005 the Company has decided not to make any further grants under the ESOS scheme.

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There were no options outstanding under the ESOS schemes as at 31 December 2008:

| Grant date     | Exercise period<br>ordinarily within seven<br>years from | Exercise<br>price<br>(pence) | Number of 5p ordinary<br>shares |         |
|----------------|--|------------------------------|---------------------------------|---------|
|                |  |                              | 2008                            | 2007    |
| March 1999     | March 2002   | 903                          | -                               | 13,719  |
| March 2000     | March 2003   | 655                          | -                               | 12,525  |
| September 2002 | September 2005   | 319                          | -                               | 6,230   |
| March 2003     | March 2006   | 135                          | -                               | 9,204   |
| September 2003 | September 2006   | 267                          | -                               | 10,346  |
| March 2004     | March 2007   | 308                          | -                               | 21,720  |
| September 2004 | September 2007   | 335                          | -                               | 11,200  |
| September 2004 | September 2007   | 340                          | -                               | 18,795  |
| April 2005     | April 2008   | 416                          | -                               | 87,731  |
| October 2005   | October 2008   | 527                          | -                               | 89,560  |
|                |  |                              | -                               | 281,030 |

The following table sets out the number and corresponding weighted average exercise prices (WAEP) for the movements in the executive share options during the year.

|                             | 2008<br>No | 2008<br>WAEP<br>(pence) | 2007<br>No | 2007<br>WAEP<br>(pence) |
|-----------------------------|------------|-------------------------|------------|-------------------------|
| Outstanding as at 1 January | 281,030    | 382.04                  | 796,839    | 325.82                  |
| Exercised during the year   | (263,528)  | 357.80                  | (487,755)  | (231.15)                |
| Expired during the year     | (17,502)   | 854.60                  | (28,054)   | (283.43)                |
| Outstanding at 31 December  | -          | -                       | 281,030    | 382.04                  |
| Exercisable at 31 December  | -          | -                       | 27,780     | 155.35                  |

As detailed above, there are no options (2007 : 27,780) over shares that have not been recognised in accordance with FRS 20 as the options were granted on or before 7 November 2002. Except for the effect of the rights issue that occurred in 2006 these options have not been subsequently modified; therefore, they do not need to be accounted for in accordance with FRS 20.

**(c) Long Term Incentive Plan (LTIP)**

Participants in the LTIP were awarded a cash payment in lieu of the shares that they would have become entitled to under the plan, subject to the performance period being shortened to the date of acquisition of the Company by Impala Holdings Limited and no pro-rating taking place for the proportion of the vesting period that had elapsed. The full award was subject to the relevant performance conditions being met and to the discretion of the Remuneration Committee.

Under the Resolution 2002 LTIP and the Resolution 2005 LTIP, share options were granted to directors and senior management. Both were 'nil cost' and had a vesting period of three years, both being subject to performance criteria being met.

Once vested, the 2002 LTIP had an exercise period of three months which could be extended up to one year at the discretion of the Company. The 2005 LTIP could be exercised during the six months following vesting, though the Trustee had discretion to extend the exercise period up to twelve months. However no options could vest unless the measured total shareholder return (TSR) reflects underlying financial performance.

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The number of shares under option was determined by reference to a maximum multiple of twice basic salary and a notional share price set prior to date of grant.

Options granted in 2003, 2004 and April 2005 were exercisable from the third anniversary subject to how the Company's share price growth over a fixed three year period ending on 30 March 2006, 30 March 2007 and 30 March 2008, respectively was ranked in a table of companies in the FTSE 250.

Options granted in April 2004 were exercisable from the third anniversary subject to total shareholder return (TSR) growth over three years, ending on 30 March 2007 and 30 March 2008 respectively, as compared to the FTSE 250.

Under the 2002 LTIP, 25% of shares vest at median ranking, all if performance is in the top quartile and straight line pro rata if in between.

Options granted in September 2005 and October 2005 were exercisable from the third anniversary of the date of grant subject to TSR growth over three years, ending 3 July 2008, as compared to that of the companies ranked 51 to 150 in the FTSE All-share index. 25% of shares vest at median ranking, all if in the top quintile and straight line pro-rata if in between.

Options granted in 2006 and 2007 had 50% of the awards based on TSR and 50% based on adjusted embedded value (EV). The TSR measure was based on TSR growth compared to companies ranked 51-150 in the FTSE All-Share Index over three years from date of grant. 25% of shares subject to this part of the award would vest for median ranking, all if in top quintile and a pro-rating on a straight line basis for values in between. The EV target was measured over three financial years commencing from 31 December 2005 for the options granted in 2006 and 31 December 2006 for those granted in 2007. For the 2006 grant 25% of shares subject to the award would vest for average growth in Adjusted EV per share in excess of the risk free rate of 2.5% increasing on a straight line basis to 100% vesting for average growth in Adjusted EV per share of 6%. For the 2007 grant 25% of shares subject to the award would vest for average growth in Adjusted EV per share in excess of the risk free rate of 3.5% increasing on a straight line basis to 100% vesting for average growth in Adjusted EV per share of 7%.

There were no options outstanding under the LTIP schemes as at 31 December 2008:

| Exercise period<br>ordinarily within 1 year from | Option price<br>(pence) | Number of 5p ordinary shares |                |
|--|-------------------------|------------------------------|----------------|
|  |                         | 2008                         | 2007           |
| April 2008                                       | Nil                     | -                            | 90,273         |
| September 2008                                   | Nil                     | -                            | 224,943        |
| October 2008                                     | Nil                     | -                            | -              |
| April 2009                                       | Nil                     | -                            | 158,094        |
| October 2009                                     | Nil                     | -                            | 12,096         |
| October 2010                                     | Nil                     | -                            | 407,794        |
| <b>Total</b>                                     |                         | <b>-</b>                     | <b>893,200</b> |

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The following table sets out the number and movements in the LTIP share options during the year. The weighted average exercise price (WAEP) for all LTIP share options is £nil.

|                             | 2008<br>No | 2007<br>No     |
|-----------------------------|------------|----------------|
| Outstanding as at 1 January | 893,200    | 637,438        |
| Granted during the year     | -          | 401,371        |
| Exercised during the year   | (829,671)  | (141,433)      |
| Expired during the year     | (63,529)   | (4,176)        |
| Outstanding at 31 December  | <u>-</u>   | <u>893,200</u> |
| Exercisable at 31 December  | <u>-</u>   | <u>140,733</u> |

For options granted from 2005 to 2007, the fair value of equity-settled share options granted has been estimated as at the date of grant using a binomial pricing option and a Monte Carlo pricing model, taking into account the terms and conditions upon which the options were granted.

**d) Share matching plan (SMP)**

Participants in the SMP were awarded a cash payment in lieu of the shares that they would have become entitled to under the plan, with the vesting period shortened to the date of acquisition of the Group by Impala Holdings Limited and no pro-rating taking place for the proportion of the vesting period that had elapsed.

The SMP was a share-based payment scheme offered to certain senior managers for the first time in 2006. Two awards were made during 2006, the first in November and the second in December.

Participants in the scheme pledged shares in the Company ('investment shares'), which they had to hold for the duration of the vesting period. For each investment share that was held for the entirety of the vesting period, the participant received a matching award of shares in the Company. If the employee sold any of his investment shares during the vesting period then the corresponding matching shares lapsed.

Each employee invited to participate in the scheme was able to pledge shares whose value did not exceed 6% of their gross annual income. It was the employee's responsibility to obtain their investment shares. Shares already held by the employee could be pledged as investment shares. The matching award normally vested after three years from the date of grant.

**21. Deferred taxation**

The deferred taxation liability is made up as follows:

|  | 2008<br>£000 | 2007<br>£000   |
|--|--------------|----------------|
| Opening deferred taxation balance at 1 January 2008      | (4,043)      | 15,273         |
| Deferred income  | -            | (3,976)        |
| On timing differences in the year                        | 4,043        | (15,340)       |
| Closing deferred taxation balance as at 31 December 2008 | <u>-</u>     | <u>(4,043)</u> |

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**22. Authorised and issued share capital**

|                    | Authorised     |                | Allotted, called up and<br>fully paid up |               |
|--------------------|----------------|----------------|--|---------------|
|                    | 2008<br>000    | 2007<br>000    | 2008<br>£'000                            | 2007<br>£'000 |
| £1 ordinary shares | <u>100,000</u> | <u>100,000</u> | <u>38,613</u>                            | <u>38,613</u> |

20m ordinary shares of £1 nominal value were issued to Pearl Group Holdings (No.1) Ltd (formerly Resolution plc) in 2007 for consideration of £20m.

**23. Reserves**

|  | Distributable<br>reserves | Non-<br>Distributable<br>reserve | Profit & Loss<br>Account<br>Total |
|--|---------------------------|----------------------------------|-----------------------------------|
|  | £'000                     | £'000                            | £'000                             |
| As at 1 January 2008   | (16,582)                  | 35,784                           | 19,202                            |
| Total recognised gains and losses for the<br>year attributable to shareholders | <u>5,371</u>              | <u>(3,024)</u>                   | <u>2,347</u>                      |
| As at 31 December 2008   | <u>(11,211)</u>           | <u>32,760</u>                    | <u>21,549</u>                     |

The non-distributable reserve relates to the PGL pension scheme surplus, net of deferred taxation.

**Reconciliation of movement in shareholders' funds**

|   | 2008<br>£'000 | 2007<br>£'000 |
|---|---------------|---------------|
| Profit for the year   | <u>13,626</u> | <u>5,226</u>  |
|   | 13,626        | 5,226         |
| Net proceeds of issue of ordinary share capital   | -             | 20,000        |
| Net actuarial (losses)/gains on defined benefit pension<br>scheme   | (15,675)      | 661           |
| Deferred tax for the financial period on items<br>credited/(debited) to the statement of total recognised<br>gains and losses | <u>4,396</u>  | <u>(198)</u>  |
| Net increase to shareholders' funds   | <u>2,347</u>  | <u>25,689</u> |
| Opening shareholders' funds   | <u>67,815</u> | <u>42,126</u> |
| Closing shareholders' funds   | <u>70,162</u> | <u>67,815</u> |

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**24. Operating lease commitments**

As at 31 December 2008 the Company had annual commitments under operating leases as set out below:

|  | <b>2008</b>                 | <b>2007</b>                 |
|--|-----------------------------|-----------------------------|
|  | <b>Land &amp; buildings</b> | <b>Land &amp; buildings</b> |
|  | <b>£'000</b>                | <b>£'000</b>                |
| Operating leases which expire:                     |                             |                             |
| Within one year                                    | 92                          | 92                          |
| In the second to fifth years (1 Wythall Green Way) | 3,935                       | 2,525                       |
| Greater than five years (St Vincent St, Glasgow)   | 5,864                       | 5,974                       |
|  | <u>9,891</u>                | <u>8,591</u>                |

The operating lease relating to the occupancy of 1 Wythall Green Way and may be terminated by PGMS at any time on or after 1 January 2008, subject to PGMS providing a minimum of 12 months notice. The lease relating to St Vincent Street, Glasgow runs until December 2020. A lease relating to Kings Court, Reading ran until September 2008.

**25. Financial support**

The Company's parent company, Impala Holdings Limited, has issued a letter of financial support to the Company, whereby it undertakes to assist the Company in meeting its liabilities as and when they fall due:

- a) until the earlier of 31 December 2010; and
- b) the approval of the financial statements of the Company for the financial period beginning on 1 January 2009

To the extent that the Company does not have funds available to meet such liabilities.

**26. Risk management**

The Company is a member of an insurance group, the ultimate parent undertaking of which, Pearl Group Limited (PGL) is required to maintain group capital resources in excess of its group capital resources requirement (Group Capital Adequacy (GCA)) in accordance with Chapter 6 of the Prudential Sourcebook for Insurers. In November 2008, PGL informed the FSA of a technical breach of its GCA. Although promptly rectified, following this breach, the FSA issued an Own Initiative Variation of Permission ("OIVoP") which inter alia, requires cash payments and asset transfers from regulated entities within the PGL Group to be disclosed to the FSA. Whilst affording the Company some liquidity protection, the OIVoP limits the ability of its parent undertaking to inject capital to meet any projected cash flow strain. To mitigate this risk, the Company has received a letter of support from its parent undertaking, Impala Holdings Limited (IHL) whereby IHL will provide financial support to the Company to enable the Company to meet its financial obligations until the earlier of 31 December 2010 and the approval of the financial statements of the Company for the financial period beginning on 1 January 2009.

**27. Other related party transactions**

In accordance with the exemption in paragraph 3(c) of FRS 8 'Related Party Disclosures', the Company has not disclosed details of transactions with entities that are part of the Pearl Group, or related parties associated with members of the Group.

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**28. Ultimate parent undertaking**

The ultimate parent company and controlling party of Pearl Group Management Services Limited is Pearl Group Ltd, a company incorporated in England. Copies of the consolidated financial statements of Pearl Group Ltd may be obtained from the Company Secretary, Pearl Group, Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU.