

# **Paternoster UK Limited**

**Annual FSA Insurance Returns for the year ended**

**31 December 2010**

**IPRU(INS) Appendices 9.1, 9.3, 9.4, 9.6**

**Statement of solvency - long-term insurance business**Name of insurer **Paternoster UK Limited**

Global business

Financial year ended **31 December 2010**

Solo solvency calculation

R2	Company registration number	GL/UK/CM	day month year			Units
			31	12	2010	
	<b>5656083</b>	<b>GL</b>				<b>£000</b>
			<b>As at end of this financial year</b>			<b>As at end of the previous year</b>
			1			2

**Capital resources**

Capital resources arising within the long-term insurance fund	<b>11</b>	56948	99165
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>	194795	189423
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	251743	288588

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	38742	36377
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	213001	252211

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	116226	109132
Resilience capital requirement	<b>32</b>	2102	14000
Base capital resources requirement	<b>33</b>	3040	3128
Individual minimum capital requirement	<b>34</b>	118328	123132
Capital requirements of regulated related undertakings	<b>35</b>		
Minimum capital requirement (34+35)	<b>36</b>	118328	123132
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	192579	227022
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	162997	196239

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>		
Enhanced capital requirement	<b>40</b>	118328	123132

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>	118328	123132
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	133415	165456

**Contingent liabilities**

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	<b>51</b>		
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Covering Sheet to Form 2


Name of insurer

Paternoster UK Limited

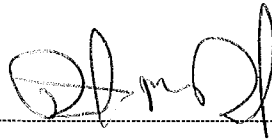
Global business

Financial year ended

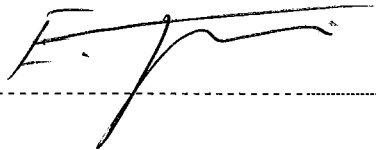
31 December 2010



Director



Director



Director

Date 30/3/2011

**Components of capital resources**

Name of insurer **Paternoster UK Limited**

Global business

Financial year ended **31 December 2010**

Company registration number	GL/UK/CM	day	month	year	Units	
R3	5656083	GL	31	12	2010	£000
	General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year		
	1	2	3	4		

**Core tier one capital**

Permanent share capital	11		4	4	4
Profit and loss account and other reserves	12		(175427)	(175427)	(142790)
Share premium account	13		372338	372338	372338
Positive valuation differences	14		117429	117429	112567
Fund for future appropriations	15				
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		314344	314344	342119

**Tier one waivers**

Unpaid share capital / unpaid initial funds and calls for supplementary contributions	21				
Implicit Items	22				
Tier one waivers in related undertakings	23				
Total tier one waivers as restricted (21+22+23)	24				

**Other tier one capital**

Perpetual non-cumulative preference shares as restricted	25				
Perpetual non-cumulative preference shares in related undertakings	26				
Innovative tier one capital as restricted	27				
Innovative tier one capital in related undertakings	28				

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		314344	314344	342119
Investments in own shares	32				
Intangible assets	33				
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35				
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37				
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		314344	314344	342119

**Components of capital resources**

Name of insurer **Paternoster UK Limited**

Global business

Financial year ended **31 December 2010**

R3	Company registration number	GL/UK/CM	day month year			Units
	<b>5656083</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		1	2	3	4	

**Tier two capital**

Implicit items, (tier two waivers and amounts excluded from line 22)	<b>41</b>				
Perpetual non-cumulative preference shares excluded from line 25	<b>42</b>				
Innovative tier one capital excluded from line 27	<b>43</b>				
Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43)	<b>44</b>				
Perpetual cumulative preference shares	<b>45</b>				
Perpetual subordinated debt and securities	<b>46</b>				
Upper tier two capital in related undertakings	<b>47</b>				
<b>Upper tier two capital (44 to 47)</b>	<b>49</b>				

Fixed term preference shares	<b>51</b>				
Other tier two instruments	<b>52</b>				
Lower tier two capital in related undertakings	<b>53</b>				
<b>Lower tier two capital (51+52+53)</b>	<b>59</b>				

<b>Total tier two capital before restrictions (49+59)</b>	<b>61</b>				
Excess tier two capital	<b>62</b>				
Further excess lower tier two capital	<b>63</b>				
<b>Total tier two capital after restrictions, before deductions (61-62-63)</b>	<b>69</b>				

Components of capital resources

Name of insurer **Paternoster UK Limited**

Global business

Financial year ended **31 December 2010**

Company registration number	GL/UK/CM	day	month	year	Units	
R3	5656083	GL	31	12	2010	£000
	General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year		
	1	2	3	4		

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	71				
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		314344	314344	342119
Inadmissible assets other than intangibles and own shares	73		62601	62601	53531
Assets in excess of market risk and counterparty limits	74				
Deductions for related ancillary services undertakings	75				
Deductions for regulated non-insurance related undertakings	76				
Deductions of ineligible surplus capital	77				
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		251743	251743	288588

**Available capital resources for GENPRU/INSPRU tests**

Available capital resources for guarantee fund requirement	81		251743	251743	288588
Available capital resources for 50% MCR requirement	82		251743	251743	288588
Available capital resources for 75% MCR requirement	83		251743	251743	288588

**Financial engineering adjustments**

Implicit items	91				
Financial reinsurance - ceded	92				
Financial reinsurance - accepted	93				
Outstanding contingent loans	94		120379	120379	115467
Any other charges on future profits	95				
<b>Sum of financial engineering adjustments (91+92-93+94+95)</b>	<b>96</b>		120379	120379	115467

**Analysis of admissible assets**

Name of insurer **Paternoster UK Limited**

Global business

Financial year ended **31 December 2010**

Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>5656083</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	
Land and buildings			<b>11</b>				

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	<b>21</b>		
	Debts and loans	<b>22</b>		
Other insurance dependants	Shares	<b>23</b>		
	Debts and loans	<b>24</b>		
Non-insurance dependants	Shares	<b>25</b>		
	Debts and loans	<b>26</b>		
Other group undertakings	Shares	<b>27</b>		
	Debts and loans	<b>28</b>		
Participating interests	Shares	<b>29</b>		
	Debts and loans	<b>30</b>		

**Other financial investments**

Equity shares	<b>41</b>			
Other shares and other variable yield participations	<b>42</b>			
Holdings in collective investment schemes	<b>43</b>			
Rights under derivative contracts	<b>44</b>			
Fixed interest securities	Approved	<b>45</b>	50036	48155
	Other	<b>46</b>		
Variable interest securities	Approved	<b>47</b>		
	Other	<b>48</b>		
Participation in investment pools	<b>49</b>			
Loans secured by mortgages	<b>50</b>			
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>			
Loans secured by policies of insurance issued by the company	<b>52</b>			
Other loans	<b>53</b>			
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	119519	86141
	More than one month withdrawal	<b>55</b>	24500	54524
Other financial investments	<b>56</b>			
Deposits with ceding undertakings	<b>57</b>			
Assets held to match linked liabilities	Index linked	<b>58</b>		
	Property linked	<b>59</b>		

**Analysis of admissible assets**

Name of insurer **Paternoster UK Limited**

Global business

Financial year ended **31 December 2010**

Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	5656083	GL	31	12	2010	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	60		
Claims outstanding	61		
Provision for unexpired risks	62		
Other	63		

**Debtors and salvage**

Direct insurance business	Policyholders	71		
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		
	Ceded	75		
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78		
	due in more than 12 months	79		

**Other assets**

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81		
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	740	603
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86		

Deductions from the aggregate value of assets	87		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89	194795	189423
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**Analysis of admissible assets**

Name of insurer **Paternoster UK Limited**

Global business

Financial year ended **31 December 2010**

Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	5656083	GL	31	12	2010	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	

**Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting**

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	194795	189423
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101		
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	194795	189423

Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		
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**Analysis of admissible assets**

Name of insurer **Paternoster UK Limited**

Global business

Financial year ended **31 December 2010**

Category of assets **Total long term insurance business assets**

R13	Company registration number	GL/UK/CM	day month year			Units	Category of assets
			31	12	2010		
	5656083	GL	31	12	2010	£000	10
						As at end of this financial year	As at end of the previous year
						1	2
			11				

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	21		
	Debts and loans	22		
Other insurance dependants	Shares	23		
	Debts and loans	24		
Non-insurance dependants	Shares	25		
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28		
Participating interests	Shares	29		
	Debts and loans	30		

**Other financial investments**

Equity shares		41		
Other shares and other variable yield participations		42		
Holdings in collective investment schemes		43		
Rights under derivative contracts		44		8631
Fixed interest securities	Approved	45	220037	62958
	Other	46	438902	764704
Variable interest securities	Approved	47		
	Other	48	336	
Participation in investment pools		49		
Loans secured by mortgages		50		
Loans to public or local authorities and nationalised industries or undertakings		51		
Loans secured by policies of insurance issued by the company		52		
Other loans		53		53
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	105150	147034
	More than one month withdrawal	55		
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58	2264732	1939008
	Property linked	59		

**Analysis of admissible assets**

Name of insurer **Paternoster UK Limited**

Global business

Financial year ended **31 December 2010**

Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>5656083</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	292	111
	Intermediaries	<b>72</b>	8257	8626
Salvage and subrogation recoveries	<b>73</b>			
Reinsurance	Accepted	<b>74</b>		
	Ceded	<b>75</b>		
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	551	5482
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>		
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	14721	19937
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	3052978	2956544
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**Analysis of admissible assets**

Name of insurer **Paternoster UK Limited**

Global business

Financial year ended **31 December 2010**

Category of assets **Total long term insurance business assets**

	Company registration number	GL/UK/CM	day month year			Units	Category of assets
<b>R13</b>	<b>5656083</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>10</b>
					As at end of this financial year		As at end of the previous year
					1	2	

**Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting**

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	<b>91</b>	3052978	2956544
Admissible assets in excess of market and counterparty limits	<b>92</b>		
Inadmissible assets directly held	<b>93</b>	62601	53531
Capital resources requirement deduction of regulated related undertakings	<b>94</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>95</b>		
Inadmissible assets of regulated related undertakings	<b>96</b>		
Book value of related ancillary services undertakings	<b>97</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>98</b>		
Deferred acquisition costs excluded from line 89	<b>99</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>100</b>	7600	6237
Other asset adjustments (may be negative)	<b>101</b>	109026	98655
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	<b>102</b>	3232205	3114967

Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>		
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## Long term insurance business liabilities and margins

Name of insurer **Paternoster UK Limited**

Global business

Financial year ended **31 December 2010**Total business/Sub fund **Total Business**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus	<b>11</b>	2905645	2728307
Cash bonuses which had not been paid to policyholders prior to end of the financial year	<b>12</b>		
Balance of surplus/(valuation deficit)	<b>13</b>	56948	99165
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	2962593	2827472
Claims outstanding	Gross	<b>15</b>	
	Reinsurers' share	<b>16</b>	
	Net (15-16)	<b>17</b>	
Provisions	Taxation	<b>21</b>	
	Other risks and charges	<b>22</b>	
Deposits received from reinsurers	<b>23</b>		
Creditors	Direct insurance business	<b>31</b>	3693
	Reinsurance accepted	<b>32</b>	
	Reinsurance ceded	<b>33</b>	369
Debenture loans	Secured	<b>34</b>	
	Unsecured	<b>35</b>	
Amounts owed to credit institutions	<b>36</b>		
Creditors	Taxation	<b>37</b>	854
	Other	<b>38</b>	85310
Accruals and deferred income	<b>39</b>	159	190
Provision for "reasonably foreseeable adverse variations"	<b>41</b>		
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	90385	129072
Excess of the value of net admissible assets	<b>51</b>		
Total liabilities and margins	<b>59</b>	3052978	2956544

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>		
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>		

Total liabilities (11+12+49)	<b>71</b>	2996030	2857379
Increase to liabilities - DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>	7600	6237
Other adjustments to liabilities (may be negative)	<b>74</b>	171627	152186
Capital and reserves and fund for future appropriations	<b>75</b>	56948	99165
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	<b>76</b>	3232205	3114967

**Liabilities (other than long term insurance business)**Name of insurer **Paternoster UK Limited**

Global business

Financial year ended **31 December 2010**

Company registration number	GL/UK/CM	day	month	year	Units	
R15	5656083	GL	31	12	2010	£000
				As at end of this financial year	As at end of the previous year	
				1	2	

**Technical provisions (gross amount)**

Provisions for unearned premiums		11		
Claims outstanding		12		
Provision for unexpired risks		13		
Equalisation provisions	Credit business	14		
	Other than credit business	15		
Other technical provisions		16		
Total gross technical provisions (11 to 16)		19		

**Provisions and creditors**

Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers		31		
Creditors	Direct insurance business	41		
	Reinsurance accepted	42		
	Reinsurance ceded	43		
Debenture loans	Secured	44		
	Unsecured	45		
Amounts owed to credit institutions		46		
Creditors	Taxation	47		
	Foreseeable dividend	48		
	Other	49		
Accruals and deferred income		51		
Total (19 to 51)		59		
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63		
Total (59 to 63)		69		

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	71		
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Amounts deducted from technical provisions for discounting	82		
Other adjustments (may be negative)	83	(62601)	(53531)
Capital and reserves	84	257396	242954
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)	85	194795	189423

**Profit and loss account (non-technical account)**Name of insurer **Paternoster UK Limited**

Global business

Financial year ended **31 December 2010**

		Company registration number	GL/ UK/ CM	day	month	year	Units
		R16	GL	31	12	2010	£000
			This financial year			Previous year	
			1			2	
Transfer (to)/from the general insurance business technical account	From Form 20		11				
	Equalisation provisions		12				
Transfer from the long term insurance business revenue account			13		(8125)		(18903)
Investment income	Income		14		5373		246
	Value re-adjustments on investments		15				
	Gains on the realisation of investments		16				
Investment charges	Investment management charges, including interest		17		2		0
	Value re-adjustments on investments		18				
	Loss on the realisation of investments		19				
Allocated investment return transferred to the general insurance business technical account			20				
Other income and charges (particulars to be specified by way of supplementary note)			21				
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			29		(2754)		(18657)
Tax on profit or loss on ordinary activities			31		1503		69
Profit or loss on ordinary activities after tax (29-31)			39		(4257)		(18726)
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			41				
Tax on extraordinary profit or loss			42				
Other taxes not shown under the preceding items			43				
Profit or loss for the financial year (39+41-(42+43))			49		(4257)		(18726)
Dividends (paid or foreseeable)			51				
Profit or loss retained for the financial year (49-51)			59		(4257)		(18726)

**Long-term insurance business : Revenue account**

Name of insurer **Paternoster UK Limited**  
 Total business / subfund **Total Business**  
 Financial year ended **31 December 2010**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	1203	20160
Investment income receivable before deduction of tax	12	297228	152038
Increase (decrease) in the value of non-linked assets brought into account	13	(7982)	68632
Increase (decrease) in the value of linked assets	14	9157	158337
Other income	15		
<b>Total income</b>	<b>19</b>	<b>299606</b>	<b>399167</b>

**Expenditure**

Claims incurred	21	162750	169464
Expenses payable	22	20256	20208
Interest payable before the deduction of tax	23		
Taxation	24	(10574)	4179
Other expenditure	25	178	443
Transfer to (from) non technical account	26	(8125)	(18903)
<b>Total expenditure</b>	<b>29</b>	<b>164485</b>	<b>175391</b>

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	135121	223776
Fund brought forward	49	2827472	2603696
Fund carried forward (39+49)	59	2962593	2827472

## Long-term insurance business : Analysis of premiums

Name of insurer **Paternoster UK Limited**  
 Total business / subfund **Total Business**  
 Financial year ended **31 December 2010**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Regular premiums	11					
Single premiums	12		1819		1819	20779

**Reinsurance - external**

Regular premiums	13					
Single premiums	14		616		616	619

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16					

**Net of reinsurance**

Regular premiums	17					
Single premiums	18		1203		1203	20160

**Total**

Gross	19		1819		1819	20779
Reinsurance	20		616		616	619
Net	21		1203		1203	20160

## Long-term insurance business : Analysis of claims

Name of insurer **Paternoster UK Limited**  
 Total business / subfund **Total Business**  
 Financial year ended **31 December 2010**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Death or disability lump sums	11		97		97	336
Disability periodic payments	12					
Surrender or partial surrender	13		5881		5881	7853
Annuity payments	14		151721		151721	154374
Lump sums on maturity	15		5051		5051	6901
<b>Total</b>	<b>16</b>		<b>162750</b>		<b>162750</b>	<b>169464</b>

**Reinsurance - external**

Death or disability lump sums	21					
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25					
<b>Total</b>	<b>26</b>					

**Reinsurance - intra-group**

Death or disability lump sums	31					
Disability periodic payments	32					
Surrender or partial surrender	33					
Annuity payments	34					
Lump sums on maturity	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Death or disability lump sums	41		97		97	336
Disability periodic payments	42					
Surrender or partial surrender	43		5881		5881	7853
Annuity payments	44		151721		151721	154374
Lump sums on maturity	45		5051		5051	6901
<b>Total</b>	<b>46</b>		<b>162750</b>		<b>162750</b>	<b>169464</b>

## Long-term insurance business : Analysis of expenses

Name of insurer **Paternoster UK Limited**  
 Total business / subfund **Total Business**  
 Financial year ended **31 December 2010**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Commission - acquisition	11				
Commission - other	12				
Management - acquisition	13				
Management - maintenance	14		18082	18082	18994
Management - other	15		2174	2174	1214
<b>Total</b>	<b>16</b>		<b>20256</b>	<b>20256</b>	<b>20208</b>

**Reinsurance - external**

Commission - acquisition	21				
Commission - other	22				
Management - acquisition	23				
Management - maintenance	24				
Management - other	25				
<b>Total</b>	<b>26</b>				

**Reinsurance - intra-group**

Commission - acquisition	31				
Commission - other	32				
Management - acquisition	33				
Management - maintenance	34				
Management - other	35				
<b>Total</b>	<b>36</b>				

**Net of reinsurance**

Commission - acquisition	41				
Commission - other	42				
Management - acquisition	43				
Management - maintenance	44		18082	18082	18994
Management - other	45		2174	2174	1214
<b>Total</b>	<b>46</b>		<b>20256</b>	<b>20256</b>	<b>20208</b>

**Long-term insurance business : Summary of new business**

Name of insurer **Paternoster UK Limited**  
 Total business  
 Financial year ended **31 December 2010**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Number of new policyholders/  
scheme members for direct  
insurance business**

Regular premium business	11				
Single premium business	12		34	34	3851
<b>Total</b>	<b>13</b>		<b>34</b>	<b>34</b>	<b>3851</b>

**Amount of new regular  
premiums**

Direct insurance business	21				
External reinsurance	22				
Intra-group reinsurance	23				
<b>Total</b>	<b>24</b>				

**Amount of new single  
premiums**

Direct insurance business	25		1819	1819	20071
External reinsurance	26				
Intra-group reinsurance	27				
<b>Total</b>	<b>28</b>		<b>1819</b>	<b>1819</b>	<b>20071</b>



**Long-term insurance business : Assets not held to match linked liabilities**

Name of insurer **Paternoster UK Limited**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2010**  
 Units **£000**

Unadjusted assets	Economic exposure	Expected income from assets in column 2	Yield before adjustment	Return on assets in financial year
1	2	3	4	5

**Assets backing non-profit liabilities and non-profit capital requirements**

Land and buildings	11					
Approved fixed interest securities	12	224809	224809	9795	4.40	
Other fixed interest securities	13	448801	448801	23377	5.80	
Variable interest securities	14	338	338	13	24.54	
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	114298	114298		4.08	
<b>Total</b>	<b>19</b>	<b>788246</b>	<b>788246</b>	<b>33185</b>	<b>5.16</b>	

**Assets backing with-profits liabilities and with-profits capital requirements**

Land and buildings	21					
Approved fixed interest securities	22					
Other fixed interest securities	23					
Variable interest securities	24					
UK listed equity shares	25					
Non-UK listed equity shares	26					
Unlisted equity shares	27					
Other assets	28					
<b>Total</b>	<b>29</b>					

**Overall return on with-profits assets**

Post investment costs but pre-tax	31					
Return allocated to non taxable 'asset shares'	32					
Return allocated to taxable 'asset shares'	33					

## Long-term insurance business : Fixed and variable interest assets

Name of insurer **Paternoster UK Limited**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2010**  
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
<b>UK Government approved fixed interest securities</b>	<b>11</b>	17951	19.25	4.17	4.17
<b>Other approved fixed interest securities</b>	<b>21</b>	206857	14.14	4.42	4.42
<b>Other fixed interest securities</b>					
AAA/Aaa	31	85745	12.08	4.77	4.54
AA/Aa	32	32978	10.01	5.22	4.76
A/A	33	178445	11.21	5.45	4.94
BBB/Baa	34	122182	6.16	5.87	4.93
BB/Ba	35	19100	8.23	9.38	6.47
B/B	36				
CCC/Caa	37	10350	0.23	14.65	(42.64)
Other (including unrated)	38				
<b>Total other fixed interest securities</b>	<b>39</b>	448800	9.53	5.80	3.82
<b>Approved variable interest securities</b>	<b>41</b>				
<b>Other variable interest securities</b>	<b>51</b>	338	1.31	24.54	(3.43)
<b>Total (11+21+39+41+51)</b>	<b>61</b>	673946	11.20	5.34	4.01

## Long-term insurance business : Summary of mathematical reserves

Name of insurer **Paternoster UK Limited**  
 Total business / subfund **Total Business**  
 Financial year ended **31 December 2010**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Form 51 - with-profits	11				
Form 51 - non-profit	12		642576	642576	791070
Form 52	13				
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16		2270668	2270668	1943476
Form 54 - non-linked	17				
<b>Total</b>	<b>18</b>		2913244	2913244	2734546

**Reinsurance - external**

Form 51 - with-profits	21				
Form 51 - non-profit	22		1664	1664	1772
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26		5935	5935	4467
Form 54 - non-linked	27				
<b>Total</b>	<b>28</b>		7599	7599	6239

**Reinsurance - intra-group**

Form 51 - with-profits	31				
Form 51 - non-profit	32				
Form 52	33				
Form 53 - linked	34				
Form 53 - non-linked	35				
Form 54 - linked	36				
Form 54 - non-linked	37				
<b>Total</b>	<b>38</b>				

**Net of reinsurance**

Form 51 - with-profits	41				
Form 51 - non-profit	42		640912	640912	789298
Form 52	43				
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46		2264733	2264733	1939009
Form 54 - non-linked	47				
<b>Total</b>	<b>48</b>		2905645	2905645	2728307



Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)

Name of insurer **Paternoster UK Limited**  
 Total business / subfund **Total Business**  
 Financial year ended **31 December 2010**  
 Units **£000**  
 UK Pension / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
390	Deferred annuity non-profit							
400	Annuity non-profit (CPA)		115					1664
440	Additional reserves non-profit OB - Miscellaneous							
440	Additional reserves non-profit OB - Mismatching							
440	Additional reserves non-profit OB - Policy related expenses							





## Long-term insurance business : Index linked business

Name of insurer **Paternoster UK Limited**  
 Total business  
 Financial year ended **31 December 2010**  
 Units **£000**

Value of assets	Mean Term
1	2

## Analysis of assets

Approved variable interest securities	11	134824	20.94
Other variable interest securities	12	312060	13.27
Approved fixed interest securities	13	78520	16.26
Other fixed interest securities	14	1750142	8.97
Cash and deposits	15	5903	
Equity index derivatives	16		
Inflation swaps	17	(26798)	
Other assets	18	10081	
Variation margin	19		
<b>Total (11 to 19)</b>	<b>20</b>	<b>2264732</b>	

## Credit rating of other fixed interest and other variable interest securities

AAA/Aaa	31	54581	11.69
AA/Aa	32	535294	11.70
A/A	33	881603	9.64
BBB/Baa	34	427183	8.16
BB/Ba	35	142037	6.31
B/B	36	16944	2.91
CCC/Caa	37	4560	0.79
Other (including unrated)	38		
<b>Total other fixed interest and other variable interest securities</b>	<b>39</b>	<b>2062202</b>	<b>9.62</b>

## Long-term insurance business: Analysis of valuation interest rate

Name of insurer **Paternoster UK Limited**Total business **Total Business**Financial year ended **31 December 2010**Units **£000**

Product group 1	Net mathematical reserves 2	Net valuation interest rate 3	Gross valuation interest rate 4	Risk adjusted yield on matching assets 5
Form 51; Immediate And Deferred Annuities	613117		4.79	4.68
Form 51; Additional Reserves - Miscellaneous	3000			4.68
Form 51; Additional Reserves - Mismatching	2889			4.68
Form 51; Additional Reserves - Policy Related Expenses	21906		4.79	4.68
Form 54; Immediate And Deferred Annuities	2186608		4.79	5.15
Form 54; Additional Reserves-Policy Related Expenses	78125		4.79	5.15
<b>Total</b>	2905645			

**Long-term insurance business : Distribution of surplus**

Name of insurer **Paternoster UK Limited**  
 Total business / subfund **Total Business**  
 Financial year ended **31 December 2010**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	2962593	2827472
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13		
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	2962593	2827472
Mathematical reserves	21	2905645	2728307
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	56948	99165

**Composition of surplus**

Balance brought forward	31	99165	24158
Transfer from non-technical account	32	8125	18903
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	(50342)	56104
Total	39	56948	99165

**Distribution of surplus**

Bonus paid in anticipation of a surplus	41		
Cash bonuses	42		
Reversionary bonuses	43		
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46		
Net transfer out of fund / part of fund	47		
Total distributed surplus (46+47)	48		
Surplus carried forward	49	56948	99165
Total (48+49)	59	56948	99165

**Percentage of distributed surplus allocated to policyholders**

Current year	61		
Current year - 1	62		
Current year - 2	63		
Current year - 3	64		

**Long-term insurance capital requirement**Name of insurer **Paternoster UK Limited**

Global business

Financial year ended **31 December 2010**Units **£000**

LTICR factor	Gross reserves / capital at risk	Net reserves / capital at risk	Reinsurance factor	LTICR Financial year	LTICR Previous year
1	2	3	4	5	6

**Insurance death risk capital component**

Life protection reinsurance	11	0.0%				
Classes I (other), II and IX	12	0.1%				
Classes I (other), II and IX	13	0.15%				
Classes I (other), II and IX	14	0.3%				
Classes III, VII and VIII	15	0.3%				
<b>Total</b>	<b>16</b>					

**Insurance health risk and life protection reinsurance capital component**

Class IV supplementary classes 1 and 2 and life protection reinsurance	21					
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**Insurance expense risk capital component**

Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	642576	640912	1.00	6409	7893
Classes III, VII and VIII (investment risk)	33	1%	2270668	2264733	1.00	22647	19390
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%					
Classes III, VII and VIII (other)	35	25%					
Class IV (other)	36	1%					
Class V	37	1%					
Class VI	38	1%					
<b>Total</b>	<b>39</b>					29056	27283

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	642576	640912	1.00	19227	23679
Classes III, VII and VIII (investment risk)	43	3%	2270668	2264733	1.00	67942	58170
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%					
Classes III, VII and VIII (other)	45	0%					
Class IV (other)	46	3%					
Class V	47	0%					
Class VI	48	3%					
<b>Total</b>	<b>49</b>		2913244	2905645		87169	81849

<b>Long term insurance capital requirement</b>	<b>51</b>					116226	109132
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## Paternoster UK Limited - Returns for the Year Ended 31 December 2010

### Valuation report, Appendix 9.4

#### 1. Introduction

- (1) The investigation relates to 31<sup>st</sup> December 2010
- (2) The previous investigation was performed on 31<sup>st</sup> December 2009
- (3) Not applicable

#### 2. Product Range

No significant changes to products have been made since the date of the previous investigation.

The company does not transact with-profits business.

#### 3. Discretionary charges and benefits

- (1) Not applicable
- (2) Not applicable
- (3) Not applicable
- (4) Not applicable
- (5) Not applicable
- (6) Not applicable
- (7) Not applicable
- (8) Not applicable
- (9) Not applicable
- (10) Not applicable

#### 4. Valuation basis (other than for special reserves)

- (1) The mathematical reserve for annuities in payment is the present value of the annuity plus the present value of any dependants' pensions.

The mathematical reserve for deferred annuities is the present value of the annuity secured plus the present value of any benefits payable on death.

In the case of mathematical reserves in respect of annuities subject to increases linked to changes in the Retail Price Index, an explicit allowance for future increases in annuity payments has been made and also appropriately modified in the case of annuities which are subject to minimum or maximum increases.

The FSA, on the application of the firm, has made a direction in June 2007 under section 148 of the Financial Services and Markets Act 2000. The effect of the direction is to enable the firm to contract to pay benefits under linked long term contracts which are themselves determined, either wholly or partly, by reference to units in the Social Security Revaluation of Earnings Factors Orders ("s148 orders") Index. Benefits of five schemes namely the "William Cook plc 1992 Pension Scheme", "The Powell Duffryn Pension Plan", "The Bahr Behrend & Co. Limited Staff Pension Scheme", "Lonmin Superannuation Scheme" and "EMAP Earnings Related Pension Plan" are covered under s148 orders. An appropriate adjustment has been made to assumed RPI inflation to value these benefits.

A separate expense reserve is held. This is calculated as the present value of the future expenses, allowing for inflation.

- (2) Interest rates used to value the liabilities are calculated in accordance with the provisions of INSPRU 3.1.28R

The interest rates used are as follows:  
**Non-Linked**

Product Code number	Product description	31 <sup>st</sup> December 2010 %	31 <sup>st</sup> December 2009 %
390	Deferred Annuity Non- Profit - Group deferred annuities	4.791	5.276
400	Annuity Non- Profit (CPA) - Group annuities in payment	4.791	5.276

## Index linked

Product Code number	Product description	31 <sup>st</sup> December 2010 %	31 <sup>st</sup> December 2009 %
905	Index linked annuity	4.791	5.276

Investment management expenses are allowed for by an appropriate deduction from the valuation rate of interest (see 4(6) below). The valuation rates of interest above are shown after the deduction for investment management expenses.

- (3) Adjustment to the yield to allow for risks to determine the risk adjusted yields in form 57

### Default risk:

In order to reduce default risk, significant trading was carried out during 2010 to improve the credit quality of the bond portfolio. The company has adjusted its assumption in respect of the allowance made for future expected defaults in the interest rate used to value the mathematical reserves to 64bps (2009: 73bps) based on its current portfolio of assets. In addition, to ensure appropriate default allowance in changing market conditions, the minimum default allowance as a percentage of spread over liability weighted gilt yield was increased to 40% (2009:33%). This condition bit for year end 2010 increasing the default adjustment by 1bp.

The base default allowance is determined from the data supplied by our investment managers, which itself is based upon research carried out by Moody's. This analysis, based on actual default experience over a 90 year period, produces mean default rates according to credit rating and term to redemption. These mean default rates have been multiplied by a factor dependent on the rating category and duration from the valuation date of the cash flow being assessed in order to produce prudent estimates of future default rates, taking into account market conditions prevailing on the valuation date. The factors used are as follows:

Rating category	First three years	Subsequently
AAA	3.90	3.90
AA	2.30	2.30
A	2.44	1.72
BBB	2.37	1.51

BB	3.49	1.50
B	4.02	1.57
CCC	17.11	3.06

The default risk provision is subject to a minimum level of 40% of the portfolio yield spread over the liability weighted gilt yield.

In the event of default, it may be possible to recover some capital, especially if the loan is secured or if there is collateral in place. The allowance for recoveries (or partial recoveries) of the loan is assumed to be 35% (without collateral) for investment grade bonds and 30% (without collateral) of sub investment grade bonds or 99% (with collateral) of the amount subject to default.

The yield on each asset was adjusted for credit risk as follows:

- a. in the case of Approved Securities no allowance has been made
- b. in the case of other securities which are not Approved Securities, projected cash-flows from the security were reduced using the probabilities of default as set above, appropriate for the credit rating of the particular security offset by the recovery rate above.

An allowance for the counterparty risks in connection with derivative contracts is made in the determination of the valuation rate of interest.

The yields shown in Form 48 column 4 were determined in accordance with the requirements of INSPRU 3.1.33R.

**PACR :** The PACR model works by worsening the credit rating on individual bonds used to determine the default rates in order to ensure that the risk adjusted yield spread over gilts is restricted to the 85<sup>th</sup> percentile of the distribution of spreads of bonds with that rating category in the iBoxx universe in the case of investment grade bonds or Bloomberg in the case of sub investment grade bonds.

**Callable bonds :** The yield has been calculated assuming the bonds are called based on the Front office's best estimate view of the call date - calculations have demonstrated that this yield, coupled with any reinvestment yield assumed, is the most prudent approach.

(4) Mortality bases used at 31 December 2010 and 31 December 2009

The fundamental methodology underlying valuations margins to the best-estimate base assumptions as at 31/12/2010 is unchanged from the approach used for the 31/12/2009 Returns :

- Modified PCMA00' for males
- 'Modified PCFA00' for females

The mortality tables used are adjusted versions of the PCMA00 and PCFA00 standard tables. The adjustments applied to these tables vary according to

gender, age, annuity amount, geographical location and other indicators of socio-economic class. The adjustments also allow for improvements in mortality rates up to 31 December 2010.

The same basis has been applied to annuities in deferment (in deferment and payment and including any death benefits) subject to amended adjustments.

An allowance for future mortality improvements has been made using sets of reduction factors derived using the mortality projection model published by the CMI in November 2010. The rate of improvement for year 2009 was more rapid than expected and hence the updated version of the CMI model (denoted CMI\_2010), re-calibrated using the additional data for 2009, has been used.

Specifically, the projections used were CMI\_2010\_M [1.8%] and CMI\_2010\_F [1.6%] for males and females respectively.

The reduction factors are applied to both annuities in payment and deferment.

Life expectancies have been calculated using weighted average mortality rates applied in the calculation of mathematical reserves.

	31/12/2010	31/12/2009
Male aged 45*	25.5	25.3
Male aged 55*	24.0	23.8
Male aged 65	23.0	22.7
Male aged 75	14.0	13.8
Female aged 45*	27.2	26.9
Female aged 55*	25.9	25.6
Female aged 65	24.6	24.3
Female aged 75	15.2	15.0

\* Life expectancy at age 65

In percentage terms, the aggregate life expectancy margin for the whole Paternoster portfolio is therefore circa 5-6%; which is similar to the margin that applied as at 31/12/2009.

(5) Not applicable

(6) The renewal expenses per annum per annuitant for all products are assumed to be £92.75 (2009: £88) excluding investment management expenses. These are assumed to inflate at 5.4% per annum compound (2009: 5.4%). Investment management expenses are allowed for by making a deduction from the valuation rate of interest of 0.015% (2009: 0.015%).

(7) Not applicable

(8) Not applicable

(9) No allowance for lapses is made in the valuation.

(10) Not applicable

(11) Derivatives contracts held as at 31 December 2010 comprised:

- i) Contracts to swap future UK Sterling LIBOR for fixed UK Sterling
- ii) Contracts to swap fixed UK Sterling for future UK Sterling LIBOR
- iii) Contracts to swap future fixed UK Sterling for future UK inflation linked UK Sterling payments
- iv) Contracts to swap future UK Sterling LIBOR income each year for fixed UK Sterling cash flows
- v) A contract to swap future UK Sterling LIBOR income each year for future UK inflation linked UK Sterling cash flows
- vi) A contract to swap future UK inflation linked UK Sterling cash flows each year for future UK Sterling LIBOR income
- vii) Contracts to swap fixed future Euro denominated incomes for fixed future UK Sterling cash flows
- viii) Contracts to swap fixed future UK Sterling cash flows for fixed future Euro denominated incomes
- ix) Contracts to swap fixed future US Dollar denominated incomes for fixed future UK Sterling cash flows
- x) Contracts to swap fixed future UK Sterling cash flows for fixed future US Dollar denominated incomes
- xi) Contracts to swap fixed future Denmark Krone denominated incomes for fixed future UK Sterling cash flows
- xii) Contracts to swap fixed future UK Sterling cash flows for fixed future Denmark Krone denominated incomes

The effect of contracts under (i) is to convert UK sterling cash-flows from LIBOR-linked deposits into fixed UK Sterling cash-flows.

The effect of the contract under (ii) is to convert fixed UK Sterling cash-flows into LIBOR-linked UK Sterling cash-flows.

The effect of contracts under (iii) is to convert fixed UK Sterling cash-flows into RPI linked UK Sterling cash-flows.

The effect of contracts under (iv) is to convert regular UK sterling LIBOR-linked cash-flows into regular fixed UK Sterling cash-flows.

The effect of contracts under (v) is to convert regular UK sterling LIBOR-linked cash-flows into RPI linked UK Sterling cash-flows.

The effect of contracts under (vi) is to convert regular RPI linked UK Sterling cash-flows into regular UK sterling LIBOR-linked cash-flows.

The effect of contracts under (vii) is to convert regular Euro denominated cash-flows into regular UK Sterling cash-flows.

The effect of contracts under (viii) is to convert regular UK Sterling cash-flows into regular Euro denominated cash-flows.

The regular Euro denominated cash-flows under (vii) and (viii) offset each other and the currency exposure closed out.

The effect of contracts under (ix) is to convert regular US Dollar denominated cash-flows into regular UK Sterling cash-flows.

The effect of contracts under (x) is to convert regular UK Sterling cash-flows into US Dollar denominated cash-flows.

The regular US Dollar denominated cash-flows under (ix) and (x) offset each other and the currency exposure closed out.

The effect of contracts under (xi) is to convert regular Denmark Krone denominated cash-flows into regular UK Sterling cash-flows.

The effect of contracts under (xii) is to convert regular UK Sterling cash-flows into regular Denmark Krone denominated cash-flows.

The regular Denmark Krone denominated cash-flows under (xi) and (xii) offset each other and the currency exposure closed out.

The cash-flows involved in these arrangements were combined with the cash flows from bonds and cash held in connection with these derivatives in order to determine the valuation rate of interest.

No options are held.

The yields shown in Form 48 column 4 were determined in accordance with the requirements of INSPRU 3.1.33R.

(12) Not applicable

## 5. Options and guarantees

(1) Not applicable

(2) Not applicable

(3) Not applicable

**(4) Inflation reserve**

The Company's obligations to policyholders include an embedded guarantee in that, should inflation become negative, it would be impractical to reduce pensions in payment. This arises in the main from contractual obligations that explicitly stipulate a floor of zero inflation to be used in the calculation of benefits payable, an implied floor of zero by virtue of contracts only referring to pension "increases" and conceivably in some cases the Company would need to take a view on whether pension reductions in such cases would be compliant with the requirement to treat customers fairly.

On the reverse of this, a number of schemes have caps on inflation such that, if RPI goes above a certain level, escalations are capped or paid at less than 100% of RPI.

During 2010, liquidity in the LPI market reduced significantly. Consequently banks priced in an illiquidity premium to inflation volatility which in turn impacted the LPI rates with the cost of the floor increasing significantly.

In 2009, a provision of £12.2m was held as an additional inflation guarantee reserve. Due to the increase in illiquidity premium in market LPI rates it was no longer felt necessary to hold the inflation guarantee reserve or the inflation shock that is included in the RCR in previous years.

## 6. Expenses reserves

- (1) The aggregate amount arising during the twelve months after the valuation date from implicit and explicit expense reserves in the valuation to meet expenses are:

	£ '000
Per policy expenses	4,112
Investment management expenses	434
Total	4,546

- (2) Not applicable
- (3) The maintenance expenses shown at line 14 of Form 43 are £18.1m.
- (4) No estimate of acquisition expenses for 2011 has been made, as the Company is closed to New Business.
- (5) No New Business closure reserve has been set aside as company is closed to New Business.
- (6) Not applicable.

## 7. Mismatching reserves

- (1) All liabilities are payable in sterling, except for a small proportion of liabilities as set out in (2) below. Liabilities are backed by assets in the same currency, except for a small proportion of the portfolio which is not denominated in sterling. To hedge non-UK sterling denominated cash flows, an adequate and proper quantum of foreign currency swaps are in place. Details of these swaps are shown in 4(11) above.
- (2) The amount of non-sterling liabilities is 0.03% of the aggregate mathematical reserves.
- (3) As at December 2010, there was no additional provision held for foreign currency. On the valuation date, all the foreign currency positions had been closed out except those required to meet the non sterling liabilities.

As at December 2009, the total forward currency reserve amounted to £2.6m.

- (4) The most onerous scenario under INSPRU 3.1.16R was a fall in yield in all fixed interest securities of 0.80%, which is the percentage point fall equal to 20% of the long-term gilt yield at the valuation date.
- (5) There were no significant territories at the valuation date.
- (6) In respect of the scenario described under (4) above;
- (a) The resilience capital requirement is £2.1m.
- (b) The increase in the aggregate amount of the long-term insurance liabilities was £352.8m (allowing for the mismatching reserve calculated in (7)).
- (c) The increase in the aggregate amount of assets backing these liabilities was £350.7m.
- (7) A reserve of £2.9m was established following tests on the asset and liability cash flows pursuant to INSPRU 1.1.34R (2). This reserve was set at a level which was sufficient to ensure that it covered the results of projecting:
- (i) the risk adjusted cash flows of the assets backing the liabilities
- (ii) the future liability payments on the valuation assumptions.

In any year where asset income exceeds liability outgo, the excess is assumed to be invested in a cash asset earning a return based on the period since the valuation date.

In any year where the cash income is insufficient to meet the liabilities, the cash asset is used to meet the shortfall. In the event that the cash asset is reduced to zero, then the shortfall is assumed to be borrowed at a rate based on the period since the valuation date. The rates used at December 2010 were :

Period from valuation date (years)	Cash asset	Borrowings
0 - 1	5.03%	5.23%
1 - 2	4.73%	4.93%
2 - 3	4.43%	4.63%
4+	4.12%	4.32%

## 8. Other special reserves

A special reserve of £2,950,000 is being held. This is a reserve to cover the contingency of incomplete data being used to calculate the provisions, using the methodology described in section 4 above.

## 9. Reinsurance

(1) No reinsurance has been ceded on a facultative basis to a reinsurer who is not authorised to carry out Insurance business in the United Kingdom.

(2) A treaty is in force where the premiums paid exceed 1% of gross premiums as follows:

(a) Hannover Rückversicherung AG

(b)

1. A longevity reinsurance contract covering pensioners in 28 schemes in which regular premiums, derived using fixed set of mortality assumptions, are paid by the insurer.
2. The reinsurer pays claims reflecting the survival of the pensioners covered by the treaty.
3. Both premiums and claims under the treaty are linked to changes in the Retail Price Index.
4. A reinsurance management fee is paid quarterly by the insurer (expressed as a % of mathematical reserves). Payment of the fee is contingent upon surpluses arising.

(c) the reinsurance premium expense paid during the report period amounted to £ 616,000

(d) Collateral will be posted (by either party) if the PV of expected future cash flows (based on updated best-estimate mortality assumptions) moves outside a pre-defined corridor. On the valuation date no such collateral was posted

(e) the treaty is closed to new business

(f) there is no un-discharged obligation of the insurer

(g) the amount of mathematical reserve ceded under the treaty is £7,599,536

(h) The retention of the insurer is 30%

(i) The insurer is authorised to carry on insurance business in the United Kingdom

(j) The reinsurer is not a connected company of the insurer

(k) The material contingency to which the treaty is subject is longevity risk

- (l) There is no liability of the insurer to refund commission in the event of lapse or surrender of the contract.

**10. Reversionary (or annual) bonus**

- (1) Not applicable
- (2) Not applicable
- (3) Not applicable
- (4) Not applicable.

Paternoster UK Limited  
Year Ended 31 December 2010  
Supplementary Notes To The Returns

Form 2

\*0201\* The FSA, on the application of the firm, has made a direction in June 2007 under section 148 of the Financial Services and Markets Act 2000. The effect of the direction is to enable the firm to contract to pay benefits under linked long term contracts which are themselves determined, either wholly or partly, by reference to units in the Social Security Revaluation of Earnings Factors Orders ("s148 orders") Index. Benefits of five schemes namely the "William Cook plc 1992 Pension Scheme", "The Powell Duffryn Pension Plan", "The Bahr Behrend & Co. Limited Staff Pension Scheme", "Lonmin Superannuation Scheme" and "EMAP Earnings Related Pension Plan" are covered under s148 orders.

The FSA has further made a direction in July 2009 under s148 orders which has amended Rule INSPRU 2.1.22R by the addition of the following new subparagraph (7):

*"(7) For the purpose of this rule, a group of persons is not closely related by reason of the relationship described in INSPRU 2.1.40R(1) if control is exercised by, or on behalf of, HM treasury."*

There is no effect of this direction on the firm.

Form 3

*0301*	Reconciliation of net admissible assets to total capital resources.	2010 <u>£ 000</u>
	Admissible assets (Line 89 on Form 13 (OLTb))	194,795
	Admissible assets (Line 89 on Form 13 (LTF))	3,052,978
	Mathematical reserve (Line 11 on Form 14)	(2,905,645)
	Other insurance and non-insurance liabilities (Line 49 on Form 14)	(90,385)
	Total capital resources (Line 79 on Form 3)	<u>251,743</u>

**Paternoster UK Limited**  
**Year Ended 31 December 2010**  
**Supplementary Notes To The Returns**

**\*0308\***    Line 94 on Form 3

This represents outstanding principal loan amount and accrued interest on contingent loan. The Company has taken a contingent loan amounting to £105,000,000 from Paternoster Financial Services Limited, a fellow subsidiary company. The Interest accrued unpaid in respect of the contingent loan as at the year ended 31 December 2010 was £15,379,000.

**\*0310\***    Line 14 on Form 3

Positive valuation differences (Line 14 on Form 3) represents net addition to the capital resources by way of contingent loan and interest thereon. The repayment of the loan and interest accrued thereon will be paid when the Company has necessary approval from the FSA, it has surplus in Line 34 on Form 58 and management feels that it will not be detrimental to Company's solvency position. Since, the Company does not have necessary approvals from the FSA and also management does not feel that at this point of it should repay contingent loan or interest thereon; the Company is not liable to pay contingent loan and interest thereon. The contingent loan is considered Tier 1 capital in accordance with GENPRU 2.2.9G.

Further, it includes negative valuation differences arisen due to data risk provision included in the return.

	Dec-10
	£' 000
Contingent loan	105,000
Interest on contingent loan	15,379
Data contingency provision	(2,950)
Other positive valuation differences (Line 14 on Form 3)	<u>117,429</u>

**Paternoster UK Limited**  
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*0313*	Reconciliation of profit and loss account and other reserves to profit or loss retained for the financial year	
		2010
		<u>£ 000</u>
	Change in profit and loss account and other reserves (line 12 column 3 less line 12 column 4 on Form 3)	(32,637)
	Tax on profit or loss on ordinary activities (line 31 on Form 16)	(1,503)
	Change in surplus carried forward (line 49 column 1 less line 49 column 2 on Form 58)	42,217
	Change in deferred tax asset	(9,070)
	Change in data contingency provision	(50)
	Long term business expenses funded from Shareholder's fund	(8,125)
	Change in interest on contingent loan	4,911
	Profit or loss retained for the financial year (line 59 on Form 16)	<u>(4,257)</u>

**Form 13**

- \*1308\* The unlisted investment represents bonds aggregating £58,077,000 of which £35,239,000 are to cover fixed liabilities and £22,838,000 are towards linked liabilities.
- \*1310\* Amounts due to or from the Company have been set off to the extent permitted by generally accepted accounting principles.
- \*1312\* No counterparty exposure at the year end exceeded 5% of the business amount.
- \*1313\* The long term business fund assets include £82,020,000 held as collateral under stock lending arrangements.
- \*1318\* The amount on Line 101 on Form 13 represents derivative liabilities for linked business amounting to £109,026,000.

**Paternoster UK Limited**  
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\*1319\* The maximum permitted exposure to any one counterparty has been set in accordance with the counterparty limits detailed in the Prudential Sourcebook for Insurers. Therefore exposures to non-approved counterparties have been restricted to a maximum of 5% of the business amount. No counterparty exposure during the year exceeded these limits.

\*1321\* The number included at Line 102 is in accordance with international accounting standards applicable to the Company for the purpose of its external financial reporting.

**Form 14**

\*1401\* The Company operates a policy of closely matching its asset cashflows to its liabilities cashflows and holds admissible assets of sufficient value to cover reasonably foreseeable adverse variations.

\*1402\* In the event that the Company's capital resources fall below a certain threshold a current policyholder has the right to surrender its policy with Company. If the surrender occurred it would lead to an outflow of investments and a corresponding reduction in mathematical reserves.

The net impact of the policyholder exercising this option would be to increase the Company's capital resources available to meet its capital requirements.

\*1405\* Details of other adjustments to liabilities:

	2010 <u>£ 000</u>
Deferred tax asset	62,601
Derivative liability for linked business	<u>109,026</u>
Other adjustments (Line 74 on Form 14)	<u>171,627</u>

\*1412\* The number included at Line 76 is in accordance with international accounting standards applicable to the Company for the purpose of its external financial reporting.

**Paternoster UK Limited**  
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**Supplementary Notes To The Returns**

**Form 15**

- \*1501\* There were no further provisions for reasonably foreseeable variations other than those shown in the long term business fund.
- \*1507\* Details of other adjustments to liabilities (Line 83 on Form 15) represents deferred tax asset.
- \*1512\* The number included at Line 85 is in accordance with international accounting standards applicable to the Company for the purpose of its external financial reporting.

**Form 40**

- \*4002\* Other expenditure represents investment management fees and bank charges.
- \*4005\* Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account for the year.
- \*4008\* Management services are provided to the Company for day to day administration from group companies, being Paternoster Services Limited and Paternoster India Private Limited. There were no other material intra-group transactions.

**Form 42**

- \*4201\* The number included at Line 14 is inclusive of reinsurer's share of claim paid amounting to £102,000.

**Paternoster UK Limited**  
**Year Ended 31 December 2010**  
**Supplementary Notes To The Returns**

**Form 47**

- \*4702\* The single premiums received/ refunded for some schemes relate to specific members and these have been apportioned accurately between product codes. For other schemes where the premium income relates to benefit enhancements rather than to purchase/refund of specific members, it has been split between index linked and non profit in proportion to the value of the benefits of the existing members of the scheme.

**Form 48**

- \*4803\* Investments include £557,672,000 in Callable bonds, of which £535,500,000 are called on first call date and £22,172,000 are called on the last call date/ deferral basis.

**Form 49**

- \*4901\* Credit ratings used on Form 49 have been taken to be the average of 3 ratings viz. Moody's, Fitch & S&P. These ratings have been further adjusted in accordance with the Paternoster Credit Rating (PACR) model if the yield on the bond is higher than would be commensurate with a bond with that published rating. Where there is no external agency rating, the company reviews the investment against available comparable bonds and other external views and then assigns a rating.

**Form 56**

- \*5601\* Credit ratings used on Form 49 have been taken to be the average of 3 ratings viz. Moody's, Fitch & S&P. These ratings have been further adjusted in accordance with the Paternoster Credit Rating (PACR) model if the yield on the bond is higher than would be commensurate with a bond with that published rating. Where there is no external agency rating, the company reviews the investment against available comparable bonds and other external views and then assigns a rating.

**PATERNOSTER UK LIMITED**  
**Returns for the year ended 31 December 2010**

**Statement required by Rule 9.29 of the Prudential Sourcebook for Insurers**

(a) Investment guidelines

The investment guidelines for the use of derivative contracts for both long term and other than long term funds are set out below.

(i) Derivatives are used for the purpose of efficient portfolio management or to reduce risk, specific examples being to implement tactical asset allocation changes around the strategic benchmark, hedge cash flows, hedge non-Sterling denominated cashflows, or control the risk profile of an identified strategy.

(ii) A number of restrictions on the use of derivatives have been set

- all derivatives that impose obligations on the fund must be strictly covered.
- All derivative contracts must satisfy the definition of approved under the Prudential Sourcebook for Insurers.
- The maximum allowable exposure to counterparties should not be exceeded.
- Only certain permitted exchanges and contracts can be used.

(iii) During the year the Company has used interest rate, inflation-linked and currency swaps in the long term business fund.

(b) Not Applicable

(c) Not Applicable

(d) Not Applicable

(e) Not Applicable

**PATERNOSTER UK LIMITED**  
**Returns for the year ended 31 December 2010**

**Additional information on controllers required by rule 9.30**

We confirm that the following is a list of:

- (a) Persons who, to the knowledge of Paternoster(UK) Limited (“the Company”), have been, at any time during the year ended 31 December 2010, a controller of the Company; and
- (b) In the case of each person who was a controller of the Company at 31 December 2010
- (i) the percentage of shares he held at that time in the Company, or in another Company of which the Company was a subsidiary undertaking; and
  - (ii) the percentage of the voting power which he was entitled at that time to exercise, or control the exercise of, at any general meeting of the Company, or another company of which it was a subsidiary undertaking;

in each case, either alone or with any associate or associates.

	In the case of each person who was a controller of the Company at 31 December 2010:	
Persons who, to the knowledge of the Company, have been, at any time during the year ended 31 December 2010, a controller of the Company.	The percentage of shares he held at that time in the Company, or in another Company of which the Company was a subsidiary undertaking, either alone or (shown separately) with any associate or associates	The percentage of the voting power which he was entitled at that time to exercise, or control the exercise of, at any general meeting of the Company, or another Company of which it was a subsidiary undertaking, either alone or (shown separately) with any associate or associates
Paternoster Holdings Limited being its immediate holding Company	100.00%	100.00%
Paternoster Limited, being its ultimate holding Company	100.00%	100.00%
Deutsche Holdings No 3, shareholder of the ultimate parent	39.47%	39.47%
Popham Limited, shareholder of the ultimate parent	24.12%	24.12%

**PATERNOSTER UK LIMITED**  
**Returns for the year ended 31 December 2010**

**Directors' Certificate required by rule 9.34(1) of the Accounts and Statements Rules**

We certify that:

- a) the return has been properly prepared in accordance with the requirements in IPRU (INS), GENPRU and INSPRU;
- b) we are satisfied that:
  - i. throughout the financial year, the insurer has complied in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU(INS), PRU, GENPRU and INSPRU; and
  - ii. it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future;
- c) in our opinion premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;
- d) the sum of the mathematical reserves, as shown in Form 14 constitute proper provision at the end of the financial year in question for the long-term insurance business liabilities (including all liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;
- e) that we have, in preparing the return, taken and paid due regard to advice in preparing the return from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R.



K. Satchell,  
Director



E.J. Jervis,  
Director



D.W. McDonogh  
Director

Fleet Place House,  
2 Fleet Place  
London  
EC4M 7RF  
30 March 2011

**PATERNOSTER UK LIMITED**  
**Returns for the year ended 31 December 2010**

**Independent auditors' report to the directors pursuant to rule 9.35 of the Interim Prudential Sourcebook for Insurers**

We have audited the following documents prepared by the insurer pursuant to the Accounts and Statements Rules set out in Part I and Part IV of Chapter 9 to IPRU(INS) the Interim Prudential Sourcebook for Insurers, GENPRU the General Prudential Sourcebook and INSPRU the Prudential Sourcebook for Insurers ('the Rules') made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000:

- Forms 2, 3, 13 to 16, 40 to 43, 48, 49, 56, 58 and 60, (including the supplementary notes) on pages 1 to 14, 15 to 18, 21, 22, 28 and 30 to 31 ('the Forms');
- the statement required by IPRU(INS) rule 9.29 on page 49 ('the statement'); and
- the valuation report required by IPRU(INS) rule 9.31 pages 32-42 ('the valuation report').

We are not required to audit and do not express an opinion on:

- Forms 46, 47, 50, 51, 54, 57 (including the supplementary notes) on pages 19, 20, 23, 24-25, and 26-27;
- the statements required by IPRU(INS) rules 9.30 on pages 50; and
- the certificate required by IPRU(INS) rule 9.34(1) on page 51.

**Respective responsibilities of the insurer and its auditors**

The insurer is responsible for the preparation of an annual return (including the Forms, the statement and the valuation report) under the provisions of the Rules. Under IPRU(INS) rule 9.11 the Forms, the statement and the valuation report are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report are required to reflect appropriately the requirements of INSPRU 1.2.

**PATERNOSTER UK LIMITED**  
**Returns for the year ended 31 December 2010**

**Independent auditors' report to the directors pursuant to rule 9.35 of the Interim Prudential Sourcebook for Insurers (continued)**

It is our responsibility to form an independent opinion as to whether the Forms, the statement and the valuation report meet these requirements, and to report our opinion to you. We also report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Forms, the statement and the valuation report are not in agreement with the accounting records and returns; or
- we have not received all the information we require for our audit.

This report has been prepared for the directors of the insurer to comply with their obligations under IPRU(INS) rule 9.35 and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

**Basis of opinion**

We conducted our work in accordance with Practice Note 20 'The audit of insurers in the United Kingdom (Revised)' issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the statement and the valuation report. The evidence included that previously obtained by us relating to the audit of the financial statements of the insurer for the financial year. It also included an assessment of the significant estimates and judgements made by the insurer in the preparation of the Forms, the statement and the valuation report.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms, the statement and the valuation report are free from material misstatement, whether caused by fraud or other irregularity or error and comply with IPRU(INS) rule 9.11.

In accordance with IPRU(INS) rule 9.35(1A), to the extent that any document, Form, statement, analysis or report to be examined under IPRU(INS) rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to IPRU(INS) rule 9.4, we have obtained and paid due regard to advice from a suitably qualified actuary who is independent of the insurer.

**PATERNOSTER UK LIMITED**  
**Returns for the year ended 31 December 2010**

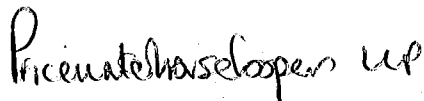
**Independent auditors' report to the directors pursuant to rule 9.35 of  
the Interim Prudential Sourcebook for Insurers (continued)**

Opinion

In our opinion:

(i) the Forms, the statement and the valuation report fairly state the information provided on the basis required by the Rules and have been properly prepared in accordance with the provisions of those Rules; and

(ii) the methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report appropriately reflect the requirements of INSPRU 1.2.



PricewaterhouseCoopers LLP  
Chartered Accountants

30 March 2011