

Rothsay Life Limited

**Report on the Proposed  
Insurance Business Transfer  
Scheme Relating to the Transfer  
of the Business of Paternoster  
UK Limited to Rothsay Life  
Limited**

6 July 2011

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# Section 1: Introduction

## Terms of reference

The purpose of this report is to:

- describe my understanding of the proposed insurance business transfer scheme (the “Scheme”) as defined in section 105 of Part VII of The Financial Services & Markets Act 2000 (“FSMA”) relating to the transfer of the long-term insurance business of Paternoster UK Limited (“PUK”) to Rothesay Life Limited (“RL”); and
- consider the implications of the proposed Scheme on the policyholders of RL, including the impact on their benefit expectations, the future security of these benefits and the Principles to treat customers fairly and manage conflicts of interest fairly.

This report has been prepared for the Board of Directors of RL in response to a request for such a report by the Board in my capacity as the actuarial function holder to the company. This report follows the guidance set out in 18.2.58 G of the Supervision manual issued by the Financial Services Authority (“FSA”).

A separate report has been prepared by Mr G Wood, as actuarial function holder to PUK, for the Board of Directors of that company which addresses the effects of the Scheme on the security and benefit expectations of the transferring PUK policyholders. Therefore I do not consider the implications of the Scheme for the policyholders of PUK. However, if there were any features of the Scheme that appeared to me likely to prejudice Court approval of the Scheme, then I would comment on these features.

In addition, in preparing this report, I have been in regular contact with the independent expert, Mr O J Gillespie, who has been appointed, with the approval of the FSA, to consider all aspects of the proposed Scheme in detail with a view to providing an independent report (“the Scheme Report”) on the likely effect of the Scheme on the policyholders of both RL and PUK. The Scheme Report is required as part of the procedure for gaining approval of the Scheme by the Court.

The contents of this report should be considered together with the material information contained in the Scheme Report on the terms of the Scheme required by section 109 of FSMA.

## Reliances and limitations

This report has been prepared for the Board of RL under the terms and conditions set out in the engagement letter between Watson Wyatt (now Towers Watson) and RL dated 20 September 2007. Further reliances and limitations applying to this report are set out in Section 8.

Both RL and PUK have confirmed that, to the best of their knowledge and belief, there are no material inaccuracies or omission in the description of their business and the Scheme given in this report.

## Compliance with Technical Actuarial Standards

This report complies with the requisite Technical Actuarial Standards issued by the Board for Actuarial Standards (“BAS”) and professional guidance (“Guidance Notes”) developed by The Actuarial Profession and adopted by BAS.

A full description of these compliance requirements is given in Section 7.

## Section 2: Executive summary

The main terms of the proposed Scheme are as follows:

- PUK will transfer its business, including (so far as it is possible) all of its assets and liabilities to RL;
- policies of PUK will, once the proposal takes effect, become policies with RL, which means that any policyholders or claimants in respect of these policies will be policyholders or claimants respectively of RL following the transfer; and
- the Scheme contains provisions setting out how the policies, assets and liabilities being transferred will be allocated within RL.

It is currently expected that the Scheme will be implemented at 11:59 p.m. on 14 December 2011, provided that all the conditions have been satisfied or waived, and in any event the Scheme will lapse if it has not been implemented on or before 31 March 2012.

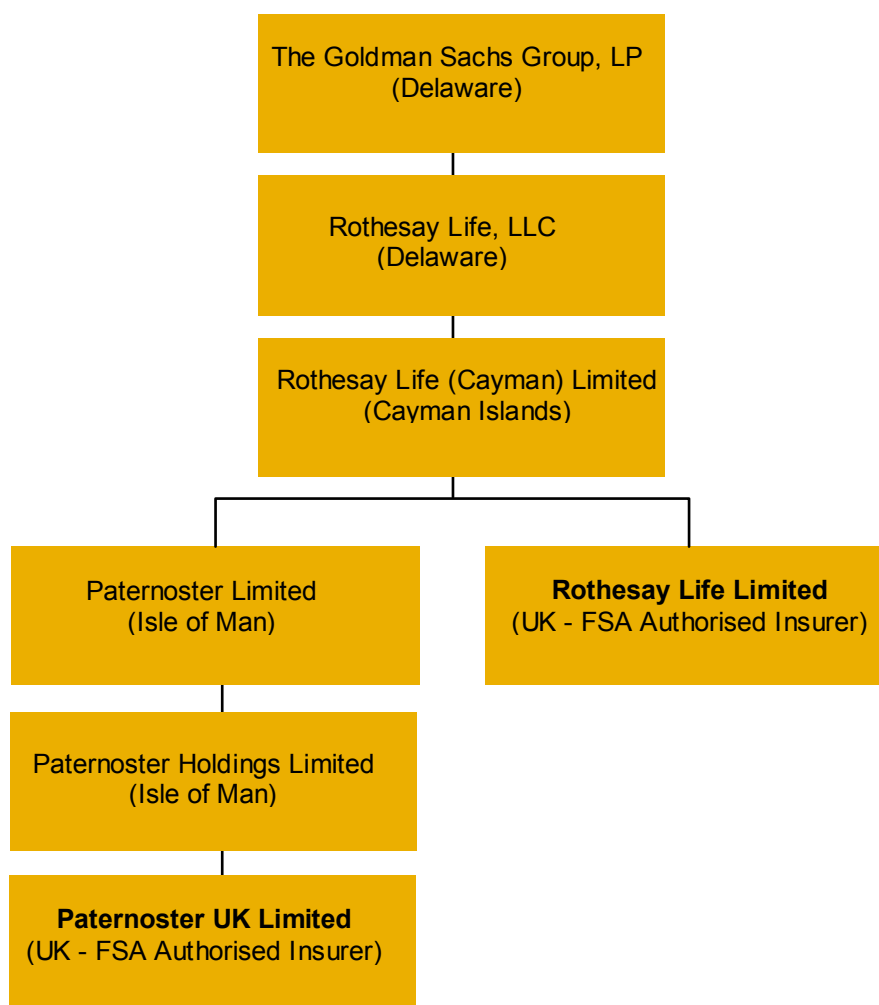
In the light of the considerations set out in this report I have concluded that:

- the security of RL's policyholders is not likely to be adversely affected by the proposed transfer;
- the reasonable benefit expectations of RL's policyholders are not likely to be adversely affected by the proposed transfer;
- there will be little or no impact on the administrative arrangements applicable to RL policyholders of the proposed transfer;
- there are no features of the Scheme that appear to me to breach either of the Principles to treat customers fairly or manage conflicts of interest fairly; and
- there are no features of the Scheme that appear to me likely to prejudice Court approval of the Scheme.

## Section 3: Background to the companies and to the proposed Scheme

### Group structure (simplified)

Following the acquisition, on 11 January 2011, by a member company of The Goldman Sachs Group, LP (“Goldman Sachs”) of Paternoster Limited, the current organisational structure of the relevant legal entities within Goldman Sachs is shown below. All entities are 100% owned by the immediate parent entity shown in this chart, except in the case of Rothesay Life, LLC which is 75% owned directly by The Goldman Sachs Group, LP and 25% owned by Goldman Sachs Global Holdings, LLC which itself is 100% owned by The Goldman Sachs Group, LP.



## History of Rothesay Life Limited

RL was established on 26 February 2007 (initially under the name Hackremco (no. 2460) Limited until 14 March 2007, then under the name First Premium Company Limited until 16 May 2007) as a wholly owned subsidiary of Rothesay Life (Cayman) Limited, which itself is a wholly owned (indirect) subsidiary of its ultimate parent company, Goldman Sachs.

RL was authorised by the FSA as a regulated insurance company (licensed to write long-term classes I, III, IV and VII) on 12 July 2007 and has focused exclusively on the UK defined benefit pension risk transfer market. RL completed its first transaction in February 2008 and has subsequently written five further transactions of varying size and structure, including conventional deferred and immediate bulk annuities, collateralised buy-ins and longevity swaps. Three of these transactions are 'unfunded' (requiring a commitment on the part of the trustee policyholder to pay regular premiums to secure future benefits), while the other transactions have been 'funded' by way of an upfront single premium payable by the trustee policyholders.

RL makes extensive use of the reinsurance market with over 80% of the future annuity payments on the longevity swaps being reassured across a number of counterparties. In its retained assets, RL takes very little outright credit risk, using a combination of credit derivatives to hedge out credit risk and therefore generate a relatively risk-free rate of return.

Generally the liabilities to policyholders are for the payment of guaranteed annuity amounts (which may be predetermined (i.e. level or increasing at a fixed guaranteed rate) or linked wholly or partially to the Retail Prices Index or the National Average Earnings Index), are payable on either an immediate or a deferred basis, and either during the lifetime of the original pension scheme member or to his or her dependant(s) on a contingent basis.

Where the trustee policyholders effect a buy-out of a pension scheme's liabilities, these annuity benefits could potentially be secured by individual annuity policies directly with the member and/or dependant(s), rather than under a bulk annuity policy effected by the trustees. Individual deferred annuities may be surrendered (i.e. transferred to another registered pension scheme) in which case a transfer value would be payable on terms which have not been guaranteed but which are broadly profit-neutral to RL (i.e. the transfer value is calculated using assumptions that reflect market conditions at the time of transfer such that RL is financially indifferent as to whether the policyholder transfers or not, so if market conditions have generally led to an increase in the value of RL's best estimate of its liabilities, the transfer value will increase and vice versa). Where these transfer values are guaranteed for a period of time and the transfer is offered to the policyholder as an option during this period, an adjustment will be made to reflect the option value implicit in the offer.

In certain circumstances, trustee policyholders may have the ability to surrender the entire bulk annuity policy for a surrender payment that would be made broadly on a profit-neutral basis to RL (as described in the preceding paragraph), unless this occurs due to a "default" by RL (as defined by each relevant policy – typically this would arise if the solvency cover falls below a trigger level which is relatively close to the statutory insolvency level).

The following tables summarise key financial metrics of RL (as taken from the company's annual returns to the FSA), including the Pillar 1 (capital resource requirement, or "CRR") position and the main revenue items, since its authorisation in 2007.

**Development of Key Metrics – Rothesay Life (£000)**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Net earned premium	3,000	437,097	388,498	94,331
Mathematical reserves	-	352,302	700,995	710,494
Available capital resources	8,918	65,390	71,997	161,949
Capital resource requirement (CRR)	2,139	28,454	26,603	46,239
Free Assets	6,779	36,936	45,394	115,710
CRR cover (%) <sup>1</sup>	417%	230%	271%	350%
Number of schemes insured (Cumulative)	-	1	4	6

1. CRR cover % = Available capital resources as a percentage of CRR

**Summary of Key Revenue Items for Rothesay Life (£000)**

	<b>2007 (6 months)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Surplus arising in long term fund	-	(36,174)	(48,093)	90,046
Shareholder net income	(448)	2,012	(300)	(94)
Movement in shareholder inadmissible assets	(634)	634	-	-
Capital injections	10,000	90,000	55,000	-
Dividend payments	-	-	-	-
Net change in capital resources	8,918	56,472	6,607	89,952

Note: The impact of transfers between the long term fund and shareholder's fund are ignored in this table

I consider that two particular points of note are relevant when considering the long-term financial position of RL and the ongoing security for its policyholders.

During 2009, RL entered into unfunded longevity swap arrangements, including reinsurance contracts, which – on prudent valuation assumptions – meant that the net future premiums receivable under the contracts were higher than the net projected benefit payments due. However at the 2009 year-end the Board of RL, following my advice as actuarial function holder, did not take credit in its published FSA Returns for this projected surplus (i.e. 'negative reserves' were set to zero), thereby taking a very prudent approach to calculating the published Pillar 1 solvency position.

During the course of 2010, as the business of RL has continued to develop, it has become clear after review that it is no longer necessary to exclude these 'negative reserves', and this has been reflected in the 2010 year-end position. This has led to a significant release of reserves and improvement in the Pillar 1 position to such an extent that this has exceeded the likely long-term requirements for RL as a stand-alone entity.

Furthermore, during the latter half of 2010, the company was actively exploring the possibility of undertaking the proposed transaction with PUK, and it was clear that it would not be appropriate to reduce the Pillar 1 capital position for RL (for instance, by way of a dividend) prior to this transaction, in order to ensure that the likely combination of RL and PUK would be adequately capitalised on completion of the proposed transfer. Therefore, the solo position for RL at the 2010 year-end shows a very high level of capital being held in excess of its Pillar 1 capital resource requirement. Following discussions with management, it is my understanding that the company has had no particular intention to continue to maintain this relatively high level of excess capital should the proposed transfer of PUK into RL not have been undertaken, and further information about the firm's current intentions with regards to the capital policy of the combined business following the proposed transfer is provided in Section 5.

## History of Paternoster UK Limited

PUK was established under its current name on 16 December 2005 and was authorised by the FSA as a regulated insurance company (licensed to write long-term classes I, III, IV and VII) on 27 June 2006. Since authorisation, PUK has focused exclusively on the UK defined benefit pension risk transfer market after its parent company, Paternoster Limited, had raised £500m in equity capital from a range of financial investors.

Upon gaining regulatory approval, Paternoster agreed its first scheme in November 2006 before going on to complete a total of 42 transactions by September 2008, writing cumulative premium income of £2.7bn. These transactions ranged in size from under £1m to over £800m and were all conventional deferred and immediate bulk annuities funded by single premiums from the trustee policyholders.

Generally the liabilities to policyholders are for the payment of guaranteed annuity amounts (which may be predetermined (i.e. level or increasing at a fixed guaranteed rate) or linked wholly or partially to the Retail Prices Index or the National Average Earnings Index), are payable on either an immediate or a deferred basis, and either during the lifetime of the original pension scheme member or to his or her dependant(s) on a contingent basis.

Where the trustee policyholders effect a buy-out of a pension scheme's liabilities, the bulk policy can be surrendered by the trustees in return for individual policies of PUK which the trustee can then assign to members by way of discharging their obligations to the scheme members.

Individual deferred annuities may be surrendered (i.e. transferred to another registered pension scheme) in which case a transfer value would be payable on terms calculated on a contractually defined basis.

One policy provides the trustee policyholder with an option to surrender the in the event that the Pillar 1 free assets fall below an agreed threshold. Under the terms of the surrender the policyholder is entitled to receive a surrender payment substantially the same as the liability held on PUK's balance sheet. In the event that the threshold is breached and the option to surrender is exercised, the overall Pillar 1 solvency position of PUK would increase. PUK also has a commitment to two schemes to offer annuities with pre-set longevity and expense assumptions to a defined group of members should they reach retirement. For the larger scheme this commitment lapses in February 2012 and could result in additional premium of approximately £5m if all eligible lives took up the option.

PUK adopted an asset strategy whereby it invested in long-dated corporate credit with appropriate interest rate and inflation swaps. As a consequence of the financial crisis, the widening of corporate bond spreads gave rise to an increase in the mathematical reserves required to be held to provide for potential bond defaults. The consequential reduction in the free assets eventually reached the position where PUK had insufficient capital on an ICA / Pillar 2 basis to continue to write new business. Consequently the Board of PUK took the decision in April 2009 to request the removal of its permission to write new business and entered into a period of retrenchment whilst it evaluated its options, following which it was decided to embark upon a process to raise additional capital recognising that such capital raising could result in the outright sale of the business.

The following tables summarise key financial metrics of PUK (as taken from the company's annual returns to the FSA), including the Pillar 1 capital position and the main revenue items, since its authorisation in 2006.

<b>Development of Key Metrics – Paternoster UK (£000)</b>					
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Net earned premium	122,326	1,429,018	1,124,321	20,160	1,203
Mathematical reserves	145,269	1,636,124	2,579,538	2,728,307	2,905,645
Available capital resources	49,936	202,689	213,335	288,588	251,743
Capital resource requirement	8,439	83,144	115,881	123,132	118,328
Free assets	41,497	119,545	97,454	165,456	133,415
CRR cover (%) <sup>1</sup>	592%	244%	184%	234%	213%
Number of schemes insured (Cumulative)	8	21	42	42	42

1. CRR cover % = Available capital resources as a percentage of CRR

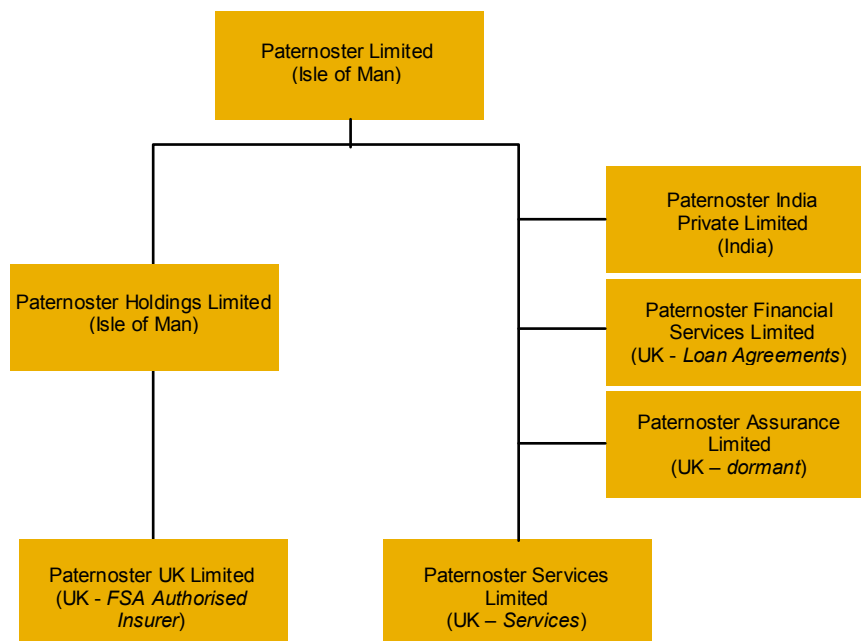
**Summary of Key Revenue Items for Paternoster UK (£000)**

	<b>2006 (7 months)</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Surplus arising in long term fund (*)	(36,293)	(91,415)	(64,808)	56,104	(50,342)
Shareholder net change in equity	6,229	11,607	26,673	8,149	13,497
Capital injections	80,000	232,561	48,781	11,000	-
Dividend payments	-	-	-	-	-
<b>Net change in capital resources</b>	<b>49,936</b>	<b>152,753</b>	<b>(94,354)</b>	<b>75,253</b>	<b>(36,845)</b>

Note: The impact of transfers between the long term fund and shareholder's fund are ignored in this table

(\*) the surplus arising in 2008 includes the impact of a £105.0m contingent loan made to PUKL

The structure of the Paternoster Group has been as follows:



Paternoster Services Limited provided all of the UK based services for PUK, including business development, operations activities, and management personnel for pricing, investment, mortality, and financial divisions. In addition, on 4 May 2010 Paternoster Services Limited was authorised by the FSA to provide intermediary insurance activities. This supported the development of the group’s introductory services in the emerging longevity swap market whilst the insurance entity PUK was unable itself to participate in the market.

Paternoster India Private Limited provided the Paternoster Group with technical pricing, investment, finance and mortality analytical services.

Paternoster Financial Services Limited provides intra-group financing. Specifically, the company acts as intermediary between PUK and its parent company Paternoster Limited in respect of the contingent loan facility entered into in August 2008.

### Acquisition of Paternoster Limited by Goldman Sachs

On 11 January 2011 Rothsay Life (Cayman) Limited acquired 100% of the share capital of PUK’s parent company, Paternoster Limited. At that time, in order to expedite a change of control approval from the FSA, £60m of additional equity and £100m of subordinated debt were injected into PUK.

Immediately following the acquisition, PUK entered into a collateralised total return swap with Goldman Sachs International (an FSA-regulated bank, and a wholly owned subsidiary of The Goldman Sachs Group, LP) which had the effect of swapping the total return associated with its bond portfolio for a predefined return designed to match a prudent expectation of future cashflows. By entering into this contract PUK removed the spread risk associated with its bond portfolio of around £3bn, and adopted an asset strategy that is now materially the same as that being utilised by RL.

## Section 4: Outline of the Scheme

Further to the acquisition of Paternoster Limited, the Boards of both RL and PUK agreed to begin the process for merging the two operations through a legal transfer of PUK's business to RL under Part VII of FSMA. The purpose of the proposed Scheme is to merge two insurers that are both now owned by Goldman Sachs that have effected and carry out broadly the same type of business with the same type of customers.

I understand that the Scheme is not intended to make any changes to policy contracts other than those that are purely consequential on the transfer process. I am not aware that any of the liabilities to RL or PUK policyholders, nor commitments by the policyholders to make any subsequent premium payments to RL, are being materially changed as a result of the proposed Scheme.

From an operational perspective both businesses have already been integrated and are subject to the same processes, governance and control. However, a transfer under Part VII is expected to achieve the following further objectives:

- reduced administrative and overhead management costs (e.g. producing and auditing one set of accounts, ICA, FSA returns, customer documentation, website, etc);
- only require one set of Solvency II models and regulatory approvals;
- simpler and clearer customer communication; and
- increased opportunity for diversification of risks and consequent improvements to capital efficiency.

Under the proposed Scheme it is intended to transfer all of the assets and liabilities of PUK to RL. As a consequence, all of the obligations and contracts which are associated with PUK will transfer to RL, including associated reinsurance, service agreements and swap contracts.

The policies of PUK along with the assets and liabilities of the long term insurance fund of PUK will be allocated to the long term insurance fund of RL. The assets and liabilities of the shareholder fund of PUK will be allocated to the shareholder fund of RL.

Although the Scheme has provisions for the possibility of some assets and liabilities to be transferred after the main transfer date, I understand that these are expected to be small or non-existent and other provisions in the Scheme are intended to transfer as much of the economic effect as possible of such assets and liabilities to RL as at the main transfer date.

From a policyholder perspective, all existing customer administration arrangements will remain in place and Towers Watson (the third party administration provider for RL in respect of its issued policies) will continue to operate as before. Similarly there will be no changes to the existing services provided by JLT (the third party administration provider for PUK in respect of its issued policies).

The Scheme makes provision for “Excluded Policies” and “Residual Assets” which are not able to be transferred on the effective date of the transfer. In practice, it is not expected that there will be any Excluded Policies. Similarly, it is understood that there are unlikely to be any significant assets that are likely to cause difficulties in transfer that would give rise to Residual Assets.

## Section 5: Financial position of RL post transfer

To the best of my knowledge, there has been no material change to RL's financial position since the previous year end as disclosed in the 31 December 2010 FSA Return, and in particular RL has not written any new policies or materially altered its risk profile or asset-liability matching position other than in the normal course of managing its current book of business.

In relation to PUK, however, both as a result of the acquisition by Goldman Sachs and as a result of transactions entered into by PUK immediately following its acquisition, the financial position of PUK fundamentally changed shortly after the 31 December 2010 year end. Therefore, in order to provide meaningful financial information for the combined business following the proposed transfer of assets and liabilities from PUK to RL, a pro forma balance sheet has been prepared which represents an amended year end position (as at 31 December 2010) for PUK that reflects the following changes:

- a capital injection of £160m (comprising £60m of equity and £100m of subordinated debt);
- the completion of a total return swap locking into a return of a fixed margin in excess of LIBOR for the full term of the outstanding PUK liabilities;
- an expense reserve release reflecting the efficiencies of a shared cost base as part of a larger group of companies; and
- the alignment of longevity assumptions with those of RL.

These changes resulted in an improvement in the Pillar 1 financial position of PUK relative to its published FSA Return position outlined in section 3 above, with assets in excess of its Pillar 1 capital resource requirement increasing from just over £133m to £200m, and with the CRR cover ratio increasing from 213% to 259%.

### Pro forma Pillar 1 position at 31 December 2010

The table below sets out the pro forma Pillar 1 financial position of PUK (restated) and RL before the proposed transfer and of RL, including the relevant assets and liabilities of PUK, after the proposed transfer (as if the transfer had become effective on 31 December 2010). This shows that the pro forma combined entity would have had £316m of assets in excess of its Pillar 1 capital resource requirement, representing a 283% CRR cover ratio.

Pro forma Pillar 1 Position as at 31 December 2010 (£000)

	Paternoster (pro forma)	Rothsay	Combined entity post Part VII
Value of assets	2,927	818	3,745
Net liability	(2,905)	(710)	(3,615)
Surplus in long-term fund	22	107	129
Net assets in shareholder fund fund	305	55	360
Available capital resources	326	162	488
LTICR	(116)	(30)	(146)
RCR	(10)	(17)	(27)
Excess assets	200	116	316
CRR cover ratio	259%	347%	283%

### Pro forma Pillar 2 position (ICA) at 31 December 2010

I have reviewed the pro forma Pillar 2 (ICA) position of both businesses before and after the transfer (as if the transfer had become effective on 31 December 2010). Currently, both Paternoster and Rothsay are Pillar 1 companies. Given the asset strategy of both businesses (i.e. no significant outright credit risk), this is not unexpected.

On a Pillar 2 basis, the combined entity free asset ratio is adequate and does not materially impact on the security of the RL policyholders.

### Solvency II position

I have been informed by management that the relative free asset position of both RL and PUK on a Solvency II basis, as evidenced by QIS5 analysis, anticipated future regulation and anticipated internal models, is broadly consistent. There are three considerations which need to be taken into account:

- significant parts of the Solvency II regime are still changing, so it is not clear if this view will still be true once regulation is finalised (but due to the similarities of the business in both entities, it is unlikely that there would be changes that would impact one and not the other);
- depending on EU / EIOPA views on 'matching premium' / transitional provisions for illiquidity premiums, RL may or may not proceed with its application for an internal model (although I understand that there is no reason to consider that the relative solvency position of the two companies would be significantly different if each were to use either an internal model or the standard factors); and

- the revised QIS 5 position for PUK on the pro forma basis (and, hence, for the combined RL entity after the proposed transfer) is based on an internal approximation, and I understand that there appears to be adequate surplus assets for the combined entity to cover the likely Solvency II capital requirements.

## Subsequent events

Apart from topics noted above, there are three other possibilities that may impact the above analysis and financial position in the foreseeable future:

- the firm is currently seeking quotations from market participants for a longevity swap contract, which if effected is likely to remove material longevity risk from the PUK balance sheet and potentially replace it with counterparty credit risk and operational risk;
- further new business may be written into RL; and
- the firm is currently considering externalising some portion of PUK's TRS – i.e. entering into a TRS with a third party and unwinding some portion of the TRS written with Goldman Sachs International. This could potentially change the valuation rate of interest and could, if the duration and profile were different to those of the liabilities, introduce some element of interest rate or inflation risk.

## Capital policy for the combined business

At the current time the Pillar 1 requirement is the more onerous capital requirement for both companies and both RL and PUK are currently holding significant surplus assets in excess of this requirement.

While the level of these surpluses may fluctuate in the normal course of business, I understand that it is the intention of both Boards to ensure that sufficient capital is maintained within each company. The firm has a recently approved a capital policy which in summary commits that the capital resource requirement is covered at a ratio of 150% for Pillar 1 and that each company can withstand adverse scenarios measured at the 99.8% confidence level over one year on a Pillar 2 (ICA) basis (the regulatory requirements being set at 99.5% confidence level over one year). I also understand that it is intended that this capital management policy will continue following the Part VII transfer of PUK to RL.

By 2014 it is expected that the new solvency requirements prescribed within Solvency II will come into effect. While the details of this regime are yet to be finalised, I understand that it is the expectation of the RL Board that a corresponding level of capital will be held such that a broadly similar level of security is provided to policyholders.

It is also my understanding that this capital policy will remain under review by the RL Board to ensure that it remains appropriate. Any changes to this policy will be approved by the RL Board after appropriate consultations with the FSA.

## Section 6: Impact of Scheme on existing RL policyholders

### Impact on contractual terms applicable to RL policyholders

I understand that there are no intended changes within the Scheme to the contractual terms of any of the RL policies that are likely to have a material effect on policyholders. I also understand that no material changes are intended to the transfer basis applied to individual deferred annuitants, nor to any of the collateral or security arrangements in place with certain trustee policyholders.

### Impact on security of benefits

As noted in Section 5 of this report, had the Scheme been effected at 31 December 2010 (and the other actions noted in Section 5 also taken effect by that date), RL would have continued to meet its capital resources requirements by a relatively comfortable margin, both on the Pillar 1 and on the Pillar 2 / ICA basis.

At a general level, there would seem to be little change in the security of benefits of RL policyholders if the Scheme were to be approved. This is because the business of PUK is very similar to that of RL, containing insurance (longevity) risks and investment strategies that, after the execution of the total return swap in PUK following the acquisition by Goldman Sachs, are being managed in the same way that the equivalent risks are being managed by RL in respect of its similar policy types. I understand that there are no other economically significant options or discretions within the in-force contracts of PUK.

From my understanding of the history of PUK, there appears to be a relatively low risk of there being any significant residual unrecognised liabilities, such as potential mis-selling liabilities, although the possibility of such latent liabilities cannot be entirely discounted.

### Impact on administration

I am not aware of any significant administrative changes that will adversely affect existing RL policyholders as a result of the proposed Scheme.

### Summary

Overall, in my opinion, the proposed Scheme and transfer of business will have little impact on the benefits, security or administrative arrangements applicable to RL policyholders. Consequently, I do not consider that the proposed Scheme would mean that the Principles to treat customers fairly and to manage conflicts of interest fairly are likely to be breached.

## Section 7: TAS compliance

Following the Morris review of the actuarial profession, published in March 2005, HM Treasury asked the Financial Reporting Council (“FRC”) to take on responsibility for setting technical actuarial standards. The FRC created an operating body, the Board for Actuarial Standards, to fulfil that role.

The Technical Actuarial Standards which apply to the work performed in preparing this report are as follows:

- TAS R: Reporting Actuarial Information;
- TAS D: Data;
- TAS M: Modelling;
- Insurance TAS (applicable from 1 October 2011);
- Transformations TAS (applicable from 1 October 2011); and
- Pensions TAS

This report complies with TAS R: Reporting Actuarial Information as its intended purpose is to describe the proposed insurance business transfer scheme and to consider the impact of the proposed Scheme on the benefit expectations of the existing policyholders of RL at the date of transfer, the future security of these benefits and the Principles to treat customers fairly and manage conflicts of interest fairly. In addition to complying with TAS R, this report also complies with each of the other applicable Technical Actuarial Standards.

C.3.7 of TAS R states that a “report that includes the results of calculation of monetary amounts shall explain for each result whether it is the outcome of a planning exercise, a valuation exercise or some other exercise.” It is not apparent why this is of importance in the context of this report. However this report includes the results of various valuation exercises taken from other reports involving the quantification of amounts at certain valuation dates. These are distinct from planning, or some other forms of, exercises which may involve the results of projections at future balance sheet dates together with the sensitivity of these results to changes in the key assumptions.

C.5.5 of TAS R requires an analysis of risks and uncertainties. However, a detailed analysis of risk is contained within the firms’ ICA reports and is not repeated in this report. However, where relevant, some description is given of the risks most relevant to the business arising from the Scheme and the potential impacts on policyholders, which is the main focus of this report.

There have been no material departures from any of the Technical Actuarial Standards in performing this work.

## Section 8: Reliances and limitations

### Reliances

In carrying out our review and producing this report we have relied without independent verification upon the accuracy and completeness of the data and information provided to us, both in written and oral form, by RL and PUK and their advisers. Where possible, we have reviewed some of the information provided for reasonableness and consistency with our knowledge of the insurance industry.

Reliance has been placed upon but not limited to the following data and information:

- FSA Returns and accounts of RL and PUK as at 31 December 2010;
- Pro forma calculations for PUK's restated assets and liabilities as at 31 December 2010 following the acquisition of Paternoster by Goldman Sachs in January 2011 and the subsequent recapitalisation of PUK and restructuring of its assets, and for the pro forma combined entity;
- Information relating to ICA, QIS5 and Solvency II for each of RL and PUK; and
- Information relating to RL and PUK pertaining to their history, structure and their insurance and other liabilities, particularly including any non-standard terms and conditions of policies issued by either company.

### Limitations

This report has been prepared by Towers Watson on an agreed basis to meet the specific purposes of RL, and must not be relied upon for any other purpose. The report has been prepared for use by persons technically competent in the areas covered. This report has been prepared by Towers Watson on an agreed basis to meet the specific purposes of the Board of RL, and must not be relied upon for any other purpose. Except with our prior written consent, this report must not be reproduced or distributed, in whole or in part, outside your organisation (which, for the avoidance of doubt, includes all member companies of The Goldmans Sachs Group, LP), or be relied upon by any other person. Any reference to Towers Watson in any report, accounts or other published document is not authorised without our prior written consent.

The report must be considered in its entirety as individual sections, if considered in isolation, may be misleading. Draft versions of the report must not be relied upon by any person for any purpose. No reliance should be placed on any advice not given in writing. If reliance is placed contrary to the guidelines set out above, Towers Watson disclaim any and all liability which may arise.

This report was based on data available to Towers Watson at, or prior to, 6 July 2011, and takes no account of developments after that date. Towers Watson is under no obligation to update or correct inaccuracies which may become apparent in the report.

This report is subject to the terms and limitations, including limitations of liability, set out in our engagement letter of 20 September 2007.

We do, however, consent to the release of this report to:

- the advisers appointed in respect of the Scheme by RL and PUK;
- the FSA;
- the independent expert, Mr O J Gillespie, who has been appointed, with the approval of the FSA, to report on the Scheme; and
- the Court for the purposes of the Scheme, and being dealt with in a manner consistent with the applicable rules and procedures of the Court.

However, this is provided that:

- the report is disclosed in its entirety since individual sections, if considered in isolation, may be misconstrued;
- it is recognised that this report has not been prepared for the advisers appointed in respect of the Scheme by RL and PUK, the FSA, the independent expert or the Court and therefore may not address their particular concerns;
- the report is disclosed without responsibility on my part or on the part of Towers Watson Limited and no representation, warranty, promise or undertaking, express or implied, is or will be made or given by me or Towers Watson Limited in relation to the accuracy or completeness of the report; and
- no responsibility, liability or duty of care to the advisers appointed in respect of the Scheme by RL and PUK, the FSA, the independent expert or the Court whatsoever (other than for fraudulent misrepresentation) is or will be accepted by Towers Watson Limited or any of our officers, employees, affiliates, agents or advisers in relation thereto.

## Legal jurisdiction

This report will be governed by and construed in accordance with English law and the parties submit to the exclusive jurisdiction of the English courts in connection with all disputes and differences arising out of, under or in connection with this report. If any part of a provision of this report is held invalid, illegal or unenforceable then the remainder of such provision shall remain valid to the fullest extent permitted by law.



**Jeremy Nurse, F.I.A.**

**Actuarial Function Holder of Rothsay Life**

**6 July 2011**

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**Authorised and regulated by the Financial Services Authority**

## Appendix A: Glossary of terms

<b>BAS</b>	Board for Actuarial Standards
<b>CRR</b>	Capital Resources Requirement, as defined in the FSA Handbook
<b>FSA</b>	Financial Services Authority
<b>FSMA</b>	Financial Services & Markets Act 2000
<b>Goldman Sachs</b>	The Goldman Sachs Group, LP
<b>Guidance Notes</b>	Professional guidance developed by The Actuarial Profession and adopted by BAS
<b>ICA</b>	Individual Capital Assessment, as defined in the FSA Handbook
<b>PUK</b>	Paternoster UK Limited
<b>RL</b>	Rothesay Life Limited
<b>Scheme</b>	the proposed insurance business transfer scheme relating to the transfer of the business of PUK to RL
<b>Scheme Report</b>	the independent report required as part of the procedure for gaining approval of the Scheme by the Court