

Company Number: 6127279

ROTHESAY LIFE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2010

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the 52 week period ended 31 December 2010.

1. Principal activities

Rothesay Life Limited ('the company') provides annuity and other longevity products to corporate defined benefit pension plans, tailored to meet the specific needs of corporate sponsors, trustees and pension scheme members. The company is regulated by the Financial Services Authority ('the FSA'). The company operates as part of The Goldman Sachs Group, Inc. ('the group').

2. Review of business and future developments

The financial statements have been drawn up for the 52 week period ended 31 December 2010. Comparative information has been presented for the 57 week period ended 31 December 2009.

Business environment

Activity remained slow during 2010 as low interest rates continue to create affordability issues for pension schemes. Companies and trustees remained focused on counterparty security and products, such as those offered by the company, that provide collateral or similar arrangements, and include collateralised bulk purchase annuity contracts and longevity swaps.

The profit and loss account for the period is set out on pages 6 and 7. Profit on ordinary activities before taxation was £84,519,000 (Loss on ordinary activities before taxation for the period ended 31 December 2009: £18,603,000). The company has reported total assets of £1,388,509,000 (31 December 2009: £902,843,000).

During the period the company amended its methodology in relation to negative reserves generated on longevity contracts. As a result of the change the company released £110.6m of negative mathematical reserves which had previously not been recognised relating to a longevity risk transfer agreement which had been transacted during the period ended 31 December 2009.

On 2 July 2010 the company announced the insurance of £1.3bn of pension scheme liabilities increasing the company's total insurance portfolio to £4.0bn. The insurance liabilities are covered by an insurance arrangement, under which the trustees retain ownership of the assets backing the transaction, providing significant protection for the Scheme. In return for the proceeds from those assets, Rothesay Life Limited pays the agreed portion of pensioner benefits to the Scheme. This arrangement provides the highest degree of security for the Scheme and its members. The company has reinsured 78% of the insurance liabilities across three counterparties.

The transactions which the company has executed during the period have represented a significant proportion of the business traded in the market during 2010.

Strategy

The company aims to provide the very best tailor made solutions for pension schemes seeking to mitigate the financial risk of members living longer than expected. Rothesay Life Limited focuses on meeting the requirements of all those concerned including pension scheme members, trustees and corporate sponsors.

Following the acquisition of The Paternoster Group on 11 January 2011 by Rothesay Life (Cayman) Limited, the parent company of Rothesay Life Limited, the company is now better placed to take advantage of future opportunities in the market. Within the next 12 months the company will undertake a Part VII transfer of the Paternoster UK Limited in force book into Rothesay Life Limited.

REPORT OF THE DIRECTORS (continued)

2. Review of business and future developments (continued)

Principal risks and uncertainties

The company faces a variety of risks that are substantial and inherent in its business including longevity, market, liquidity, operational, legal and regulatory risks. The following are some of the more important factors that could affect the business.

Longevity

The principal risk the company is exposed to is longevity risk, which it actively manages through collateralised reinsurance contracts.

Economic and market conditions

The business, by its nature, does not produce predictable earnings and is materially affected by conditions in the global financial markets and economic conditions generally. Volatility in interest and inflation rates could materially affect the cost of meeting insurance obligations but this is minimised through the use of derivative hedges. The company's exposure to credit risk, principally arising through investing and reinsurance activities, is reduced by entering into agreements that enable the company to obtain collateral from counterparties on an upfront or contingent basis and / or by transferring the credit risk using credit derivatives. This credit protection, in particular collateralised derivative contracts used to pass on the credit risk of the company's corporate bonds investments, proved effective during the recent market turmoil.

Operational infrastructure

Failures in internal or outsourced processes could lead to financial loss, disruption of business, liability to clients, regulatory intervention or reputational damage. The company's financial, accounting, data processing or other operating systems and facilities and those of vendors may fail to operate properly or become disabled as a result of events that are wholly or partially beyond the company's control, adversely affecting the company's ability to process transactions. The company seeks to mitigate these risks through policies such as shadow processing of third party administration processes and frequent reconciliation of policyholder records.

Despite the resiliency plans and facilities that are in place, the company's ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports this business and the communities in which the company is located. This may include a disruption involving electrical, communications, transportation or other services used by the company or third parties with which the company conducts business. These disruptions may occur as a result of events that affect only the buildings or systems of the company or those of such third parties.

Risk management

The company seeks to monitor and control risk exposure through a risk and control framework encompassing a variety of separate, but complementary, financial, credit, operational, compliance and legal reporting systems, internal controls, management review process and other mechanisms. Whilst the company employs a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgements that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. In addition, refer to the financial risk management section (see note 23), below.

Future outlook

The directors consider that the period end financial position of the company was satisfactory. No significant change in the company's principal business activity is expected.

REPORT OF THE DIRECTORS (continued)

3. Dividends

The directors do not recommend the payment of a final ordinary dividend in respect of the period (period ended 31 December 2009: £nil).

4. Directors

The directors of the company who served throughout the period and to the date of this report, except where noted, were:

Name	Appointed	Resigned
G. P. Earle		
D. M. Jackson		
A. Loudiadis		
D. McDonogh		
K. N. Pantazopoulos	5 October 2010	
D. G. Paterson		
J. Rafter	13 October 2010	
P. Salame		28 January 2010
K. Satchell		
M. S. Sherwood		

No director had at the period end any interest requiring note herein.

5. Financial risk management

The company's risk management objectives and policies, as well as exposures to market risk, credit risk and liquidity risk are described in note 23 to the financial statements.

6. Disclosure of information to auditors

In the case of each of the persons who are directors of the company at the date when this report was approved:

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

7. Auditors

The company has passed Elective Resolutions in accordance with the Companies Act 1985 to dispense with the holding of annual general meetings, the laying of accounts and reports before general meetings and the annual reappointment of auditors. PricewaterhouseCoopers LLP will, accordingly, continue in office as auditors of the company pursuant to Section 487(2) of the Companies Act 2006 and paragraph 44 of Schedule 3 to the Companies Act 2006 (Commencement No. 3 Consequential Amendment, Transitional Provisions and Savings) Order 2007.

REPORT OF THE DIRECTORS (continued)

8. Directors' responsibilities

United Kingdom company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

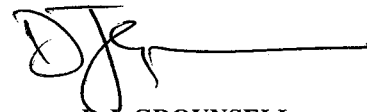
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare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

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

9. Date of authorisation of issue

The financial statements were authorised for issue by the Board of Directors on 23 March 2011.

BY ORDER OF THE BOARD



D.J. GROUNSELL

Secretary

23 March 2011

Independent auditors' report to the members of Rothesay Life Limited

We have audited the financial statements of Rothesay Life Limited for the period ended 31 December 2010 which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibility statement the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to 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 financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Nick Wilks

Nick Wilks (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

24 March 2011

ROTHESAY LIFE LIMITED

PROFIT AND LOSS ACCOUNT

for the period ended 31 December 2010

TECHNICAL ACCOUNT - LONG TERM BUSINESS	Note	52 week period ended 31 December 2010 £'000	57 week period ended 31 December 2009 £'000
Gross premiums written	4	206,936	418,475
Outward reinsurance premiums		(112,605)	(29,977)
Earned premiums, net of reinsurance		94,331	388,498
Investment income	5	43,570	17,352
Unrealised gains on investments	5	95,981	26,500
Total revenue, net of reinsurance		233,882	432,350
Gross claims paid		(167,046)	(130,985)
Outward reinsurers' share of claims paid		105,780	57,240
Change in the provision for claims outstanding		17,289	53
Claims incurred, net of reinsurance		(43,977)	(73,692)
Gross change in long term business provisions	15	36,853	395,833
Reinsurers' share of change in long term business provisions	16	148,946	(238,638)
Change in technical provisions for linked liabilities	17	(239,593)	(477,666)
Change in other technical provisions, net of reinsurance		(53,794)	(320,471)
Net operating expenses	6	(24,936)	(43,657)
Investment expenses and charges	5	(26,525)	(12,946)
Tax (charge) / credit attributable to the long term business	9(a)	(15,764)	3,384
Balance on the technical account - long term business		68,886	(15,032)

The notes on pages 9 to 31 form an integral part of these financial statements.
Independent auditors' report – page 5

ROTHESAY LIFE LIMITED

PROFIT AND LOSS ACCOUNT

for the period ended 31 December 2010

NON TECHNICAL ACCOUNT	Note	52 week period ended	57 week period ended
		31 December 2010	31 December 2009
		£'000	£'000
Balance on the technical account – long term business		68,886	(15,032)
Tax charge / (credit) attributable to the balance on the			
technical account - long term business		15,764	(3,384)
Balance on the long term business account before tax		84,650	(18,416)
Investment income	5	311	541
Investment expenses and charges	5	(442)	(728)
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		84,519	(18,603)
Tax on profit / (loss) on ordinary activities	9(b)	(15,727)	3,323
PROFIT / (LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD	21	68,792	(15,280)

The profit of the company is derived from continuing operations.

There is no difference between the profit on ordinary activities before taxation and the profit for the period as stated above and their historical cost equivalents.

The company has no recognised gains and losses other than those included in the profit and loss account for the period above and therefore no separate statement of total recognised gains and losses have been presented.

The notes on pages 9 to 31 form an integral part of these financial statements.
Independent auditors' report – page 5

ROTHESAY LIFE LIMITED

BALANCE SHEET
as at 31 December 2010

	Note	31 December 2010 £'000	31 December 2009 £'000
ASSETS			
INVESTMENTS			
Other financial investments	10(a)	356,359	340,539
ASSETS HELD TO COVER LINKED LIABILITIES			
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Long term business provision		120	-
Technical provisions for linked liabilities		148,826	-
	16	148,946	-
DEBTORS			
Debtors arising out of direct insurance operations	12	3,880	18,439
Other debtors	13	277,537	22,203
		281,417	40,642
OTHER ASSETS			
Deferred tax	14	-	13,128
Cash at bank and in hand		1,722	351
		1,722	13,479
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		14,448	14,030
Other prepayments		851	154
		15,299	14,184
TOTAL ASSETS		1,388,509	902,843
LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	20	135,000	135,000
Profit and loss account	21	10,432	(58,360)
TOTAL SHAREHOLDER FUNDS		145,432	76,640
TECHNICAL PROVISIONS			
Long term business provision	15	122,363	159,216
Claims outstanding		11,563	28,853
		133,926	188,069
TECHNICAL PROVISIONS FOR LINKED LIABILITIES	17	733,592	493,999
CREDITORS			
Subordinated loans	19	20,000	20,000
Other liabilities including derivatives	18	347,592	123,831
		367,592	143,831
Accruals and deferred income		7,967	304
TOTAL LIABILITIES		1,388,509	902,843

The financial statements were approved by the Board of Directors on 23 March 2011 and signed on its behalf by: *Keith Satchell*

Director *K Satchell*

The notes on pages 9 to 31 form an integral part of these financial statements.
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Company number: 6127279

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1. ACCOUNTING POLICIES

a. Accounting convention

The financial statements have been prepared on the going concern basis, under the historical cost convention (except as explained in note 1(g) and 1(h)), the accounting policies set out below, and in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('S12008/410') relating to insurance groups and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ('the ABI SORP') in December 2005 and revised in December 2006.

b. Premiums

During the period the company has written both single and regular premium business. Single and regular premiums are recognised when they fall due and in accordance with the substance of the underlying contractual agreement.

c. Claims

Maturity claims and annuities are charged against revenue when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the long term business provision. Death claims and all other claims are accounted for when notified.

d. Acquisition costs

The costs of acquiring new business are expensed during the financial period in which they are incurred.

e. Reinsurance

Long term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses. Such contracts are accounted for as insurance contracts provided the risk transfer is significant.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of the reinsurance company. The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of gross claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outward reinsurance premiums' when due.

f. Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest payable on financial liabilities.

Dividends on money market securities held in collective investment schemes are included as investment income on the date the units are created. Interest and expenses are accounted for on an accruals basis.

Realised gains and losses on investments carried at fair value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price.

Investment return relating to investments which are directly connected with the carrying on of long term business is initially recorded in the long term business technical account. The investment return arising in relation to all other investments is recorded in the non technical account.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1. ACCOUNTING POLICIES (continued)

g. Financial investments

Financial investments are recorded at fair value or amounts that approximate fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. the exit price. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs.

The best evidence of fair value is a quoted price in an active market. If listed prices or quotations are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets, or internally developed models that primarily use, as inputs, market-based or independently sourced parameters, including but not limited to interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. The fair value of certain financial assets and financial liabilities may include valuation adjustments for counterparty and the company's credit quality, transfer restrictions, large and/or concentrated positions, illiquidity and bid/offer inputs.

Cash instruments such as corporate debt securities and certain money market instruments are valued by verifying to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g. indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources. Valuation adjustments are typically made (i) if the cash instrument is subject to regulatory or contractual transfer restrictions and / or (ii) for other premiums and discounts that a market participant would require to arrive at exit price. Valuation adjustments are generally based on market evidence where available.

Certain cash instruments have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, these instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. When a pricing model is used the model is adjusted so that the model value of the cash instrument at inception equals the transaction price. Subsequently, the firm uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realised on sales.

The company's derivative contracts consist of over-the-counter ('OTC') derivatives.

OTC derivatives are valued using market transactions and other market evidence, including market-based inputs to models, calibration to market-clearing transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g. indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Where models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of and specific risks inherent in the instrument, as well as the availability of pricing information in the market. The firm generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, model selection does not involve significant management judgment because outputs of models can be calibrated to market clearing levels.

Certain OTC derivatives are valued using models which utilise inputs that can be observed in the market, as well as unobservable inputs. Unobservable inputs typically include certain correlations as well as credit spreads, equity volatilities, commodity prices and commodity volatilities that are long-dated or derived from trading activity in inactive or less liquid markets. Subsequent to the initial valuation of such derivatives, the firm updates the observable inputs to reflect observable market changes. Unobservable inputs are changed when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or dealer quotations or other empirical market data. In circumstances where the firm cannot verify the model value by reference to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1. ACCOUNTING POLICIES (continued)

h. Repurchase and resale agreements

Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as collateralised financing transactions and are carried at fair value under the fair value option. The collateral can be in the form of cash or securities. Cash collateral is recognised / derecognised when received / paid. Collateral posted by the company in the form of securities is not derecognised from the balance sheet, while collateral received in the form of securities is not recognised on balance sheet. If this collateral is subsequently sold, the obligation to return the collateral and the cash received are recognised on balance sheet.

i. Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount presented in the balance sheet where there is:

- (i) currently a legally enforceable right to set off the recognised amounts; and
- (ii) intent to settle on a net basis or to realise the asset and settle the liability simultaneously.

Where these conditions are not met financial assets and liabilities are presented on a gross basis in the balance sheet.

j. Long term business provision

The long term business provision is determined by the company's directors using methods and assumptions recommended by the company's Actuarial Function Holder and using recognised actuarial methods with due regard to the actuarial principles laid down in Directive 2002/83/EC. It is calculated initially on a statutory solvency basis to comply with the reporting requirements under the Financial Services and Markets Act 2000. The valuation provisions are then modified for UK GAAP reporting purposes to remove certain contingency and other reserves required by the Prudential Sourcebook for Insurers and the General Prudential Sourcebook issued by the Financial Services Authority.

The long term business provision has been determined using the gross premium method of valuation. It is calculated as the discounted value of projected future claim payments adjusted for investment expenses and future administration costs determined using prudent assumptions less the present value of future premiums (a schedule of agreed, guaranteed payments) received under the longevity swap arrangements. Projected future claim payments allow for the effects of mortality in line with the bases set out in note 15. These bases have been derived from a mortality experience investigation of the pension scheme data together with some recent population data as described in note 15. These bases also include an allowance for future improvements in mortality. The administration costs are reflective of recent company costs and expenses budgeted for the future.

The company wrote a regular premium longevity risk transfer agreement during the prior period. The reserves were calculated as the present value of future claims and expenses less the present value of future premiums (a schedule of agreed, guaranteed payments) received from the occupational pension schemes under this longevity swap arrangement. This gave rise to negative reserves, which for prudence on a statutory solvency basis, were not recognised against positive reserves held elsewhere.

However, the valuation regulations, particularly INSPRU 1.2.24R, permit the company to hold negative reserves and therefore treat such longevity contracts as assets, subject to:

- the overall company reserves being greater than or equal to the guaranteed surrender payments;
- the overall reserves not being negative; and
- there being sufficient prudence in the overall valuation.

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1. ACCOUNTING POLICIES (continued)

j. Long term business provision (continued)

During the current period, the company entered into a further regular premium longevity contract and a single premium buy-in arrangement. As a result of this significant volume of new business, the company amended its treatment of negative reserves such that they were recognised and allowed to offset positive reserves (subject to the INSPRU restrictions above) during the current period.

In accordance with the terms of the waiver granted by the FSA in September 2008, the interest rate used for discounting future projected cash flows has been derived from the internal rate of return on the basket of assets matching the FSA Pillar 1 mathematical reserves. The allowance for default risk on the matching corporate bond portfolio has been reflected through the use of credit default swaps. The discount rate used to value the liabilities at the valuation date has been reduced by a prudent allowance to reflect investment expenses.

Linked liabilities are valued in the same manner outlined above and include long term insurance business where pensioner liabilities are determined by reference to the Retail Prices Index ('RPI') or by reference to the National Average Earnings Index. All linked contracts transfer significant insurance risk, including guaranteed benefits and are classified as insurance contracts.

k. Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more tax in the future or a right to pay less tax in the future with the following exception. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is a measure on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on rates and laws enacted or substantively enacted at the balance sheet date.

l. Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at rates of exchange ruling on the date the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Gains and losses on exchange are recognised in net operating expenses.

2. REPORTING AND DISCLOSURE EXEMPTIONS

a. FRS1 'Cash Flow Statements'

The company is a greater than 90% subsidiary of The Goldman Sachs Group, Inc., whose consolidated accounts include the company and are publicly available and is, therefore, exempt from preparing a cash flow statement as required by FRS1 'Cash Flow Statements'.

b. FRS8 'Related Party Disclosures'

The company is a wholly-owned subsidiary of The Goldman Sachs Group, Inc., whose consolidated accounts include the company and are publicly available. As a result, under the terms of paragraph 3(c) of FRS8 'Related Party Disclosures', the company is exempt from disclosing transactions with companies also wholly owned within the group. There were no other related party transactions requiring disclosure.

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3. NEW ACCOUNTING STANDARDS ADOPTED

During the period the company adopted the amendment to FRS29 'Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments'. The adoption of this amendment has had no material impact on the results or financial position of the company.

4. SEGMENTAL ANALYSIS

In the opinion of the directors the company operates in a single business segment, being that of long term business. Gross premiums written is wholly made up of direct business written in the UK. No inward reinsurance business has been written.

	Regular premiums		Single premiums	
	52 week period ended 31 December 2010 £'000	57 week period ended 31 December 2009 £'000	52 week period ended 31 December 2010 £'000	57 week period ended 31 December 2009 £'000
Group pension buy-in	140,572	48,404	66,364	370,071
Total gross premiums written	140,572	48,404	66,364	370,071

5. INVESTMENT RETURN

	Long term business technical account		Non technical account	
	52 week period ended 31 December 2010 £'000	57 week period ended 31 December 2009 £'000	52 week period ended 31 December 2010 £'000	57 week period ended 31 December 2009 £'000
Investment income				
Interest income on corporate bonds	42,202	15,245	-	-
Income from money market securities held in collective investments schemes	917	2,096	311	541
Interest on repurchase and resale agreement	436	-	-	-
Interest income on bank deposits	15	11	-	-
	43,570	17,352	311	541
Investment expenses and charges				
Interest payable on collateral	(188)	(202)	-	-
Interest payable on overnight loans	(1,087)	(9)	-	-
Interest payable on financial instruments	(15,075)	(10,135)	-	-
Net losses on the realisation of investments	(10,175)	(2,600)	-	-
Interest payable on subordinated debt to other group undertakings	-	-	(442)	(728)
	(26,525)	(12,946)	(442)	(728)
Net unrealised gains on investments	95,981	26,500	-	-
Total investment return	113,026	30,906	(131)	(187)

All amounts relate to income from financial assets at fair value through profit and loss.

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

6. NET OPERATING EXPENSES

	52 week period ended	57 week period ended
	31 December 2010	31 December 2009
	£'000	£'000
Acquisition costs	8,534	39,179
Administrative expenses	16,402	4,478
	24,936	43,657

Auditors' remuneration fees for audit services of £180,000 (57 week period ended 31 December 2009: £180,000) are included as part of administrative expenses above.

7. STAFF COSTS

All persons involved in the company's operations are employed by a group undertaking. The charges made by this group undertaking for all the services provided (personnel and other) to the company are included in the management fees charged by group undertakings.

8. DIRECTORS' EMOLUMENTS

	52 week period ended	57 week period ended
	31 December 2010	31 December 2009
	£'000	£'000
Aggregate emoluments	3,090	273
Company pension contributions to money purchase schemes	3	1
	3,093	274
Highest paid director:	£'000	£'000
Aggregate emoluments and benefits	2,668	62
Company pension contributions to money purchase schemes	3	-
Accrued pension at end of period	-	-

In accordance with the Companies Act 2006, directors' emoluments above represent the proportion of total emoluments paid or payable in respect of qualifying services only. Directors also receive emoluments for non qualifying services which are not required to be disclosed. Six directors are members of the Group's defined contribution pension scheme and five are members of the Group's defined benefit pension scheme. Seven directors have been granted shares in respect of long term incentive schemes. Three directors, including the highest paid director, have exercised options during the year.

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

9. TAXATION

a. Analysis of tax charge / (credit) for the period:

	Long term business technical account	
	52 week period ended 31 December 2010	57 week period ended 31 December 2009
	£'000	£'000
Total current tax	2,636	-
Deferred tax:		
Timing differences	13,128	(3,384)
Total deferred tax (see note 14)	13,128	(3,384)
Tax charge / (credit) attributable to the long term business	15,764	(3,384)

b. Analysis of tax charge / (credit) for the period:

	Non technical account	
	52 week period ended 31 December 2010	57 week period ended 31 December 2009
	£'000	£'000
Tax attributable to long term business technical account	2,636	-
Tax attributable to non technical account	(37)	114
Total current tax charge for the period (see note 9(c))	2,599	114
Deferred tax:		
Timing differences attributable to long term business technical account	13,128	(3,384)
Timing differences attributable to non technical account	-	(53)
Total deferred tax (see note 14)	13,128	(3,437)
Tax charge / (credit) on profit / (loss) on ordinary activities	15,727	(3,323)

c. Factors affecting tax charge for the period:

The current tax assessed for the current tax period differs from the standard rate of corporation tax in the UK measured at 28% (31 December 2009: 28%). The differences are explained below:

	Non technical account	
	52 week period ended 31 December 2010	57 week period ended 31 December 2009
	£'000	£'000
Profit / (loss) on ordinary activities before tax	84,519	(18,603)
(Profit) / loss on ordinary activities multiplied by standard rate in the UK 28% (31 December 2009: 28%)	(23,665)	5,210
Difference in basis of taxation on long term business	(5,924)	9,271
Adjustments in respect of prior periods	-	(114)
Utilisation of tax losses	26,990	-
Unutilised tax losses	-	(14,481)
Current tax charge for the period	(2,599)	(114)

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

10. OTHER FINANCIAL INVESTMENTS

a. Other financial investments

	Current value		Cost	
	31 December 2010 £'000	31 December 2009 £'000	31 December 2010 £'000	31 December 2009 £'000
Collective investment schemes	150,164	170,497	146,680	167,917
Debt securities	606,838	590,622	565,103	581,505
Derivative assets	665,293	356,369	40,582	40,582
Securities purchased under agreement to resell	62,895	-	60,000	-
Total financial investments	1,485,190	1,117,488	812,365	790,004
Exclude other derivative liabilities included within assets held to cover linked liabilities	(1,128,831)	(776,949)	(638,802)	(521,108)
	356,359	340,539	173,563	268,896

Collective investment schemes, debt securities and repurchase and resale agreements have been designated at fair value through profit and loss in accordance with the investment strategy of the company.

Included in the carrying value of total financial investments above are amounts in respect of listed investments as follows:

	31 December 2010 £'000	31 December 2009 £'000
Debt securities	606,838	590,622
	606,838	590,622

Credit default swaps and a total return swap (which contains credit protection) have been purchased to protect the company from default on all of its corporate bonds. The company calls margins, receivable in cash, against this exposure and other derivative positions. At the balance sheet date there was £8.9m (31 December 2009: £17.5m payable) of collateral held in excess of the net valuation of derivatives representing a timing difference on collateral calls.

b. Assets held to cover linked liabilities

	Current value		Cost	
	31 December 2010 £'000	31 December 2009 £'000	31 December 2010 £'000	31 December 2009 £'000
Collective investment schemes	-	35,035	-	34,505
Debt securities	477,788	461,779	431,158	454,651
Derivative assets	594,932	280,135	154,116	31,902
Securities purchased under agreement to resell	56,111	-	53,528	-
Total financial investments	1,128,831	776,949	638,802	521,058
Exclude other financial investments included within assets held to cover linked liabilities	(544,065)	(282,950)	(117,564)	(189,778)
	584,766	493,999	521,238	331,280

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

11. ASSETS ATTRIBUTABLE TO THE LONG TERM BUSINESS FUND

Total assets include £1.3bn (31 December 2009: £847.7m) attributable to the long term business fund.

12. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	31 December 2010 £'000	31 December 2009 £'000
Due from policyholders	3,880	18,439
	3,880	18,439

13. OTHER DEBTORS

	31 December 2010 £'000	31 December 2009 £'000
Deposits pledged as collateral for derivatives to other group undertakings	101,700	21,900
Deposits pledged as collateral to third parties	173,610	-
Amounts due from group undertakings	-	6
Tax receivable	2,227	-
Other debtors	-	297
	277,537	22,203

The net exposures to OTC derivatives are collateralised through cash, as per the terms of the OTC contracts. At the balance sheet date, the total cash collateral was £275.3m (31 December 2009: £21.9m).

14. DEFERRED TAXATION

	31 December 2010 £'000	31 December 2009 £'000
Deferred tax balances comprise:		
Other timing differences	-	13,128
	-	13,128
The movements in the deferred tax balances were as follows:		
At 31 December 2009	13,128	
Transfer to the profit and loss account for the period (see note 9)	(13,128)	
At 31 December 2010	-	

During the period, the prior period deferred tax asset, as well as an unrecognised deferred tax asset of £13.8m has been recovered against current period profits.

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

15. LONG TERM BUSINESS PROVISION

	Long term business provision
	£'000
At 31 December 2009	159,216
Change in technical provision	(36,853)
At 31 December 2010	122,363

The in force long term insurance business of Rothesay Life Limited at 31 December 2010 is defined by the FSA as UK Pensions business. It is comprised of both non linked and index linked business providing immediate and deferred annuities together with two longevity swap arrangements. Approximately, 81% and 78% of the future annuity payments on these longevity swaps have been reassured across three counterparties.

The benefits payable on the immediate annuities include contingent annuities payable to dependants. The benefits payable on the deferred annuities consist of immediate annuities payable from the normal retirement date, with benefits payable to dependants at other times on death of the annuitant. Various options exist that may be exercised prior to vesting that include early and late retirement, lump sum commutation, transfer values and changed spouses and dependant pensions, although the terms for such options are not guaranteed. Some or all benefits may be linked to the performance of the Retail Prices Index (including LPI), and some benefits are linked to the performance of the National Average Earnings Index.

The two new business contracts written during 2010 comprise of a longevity swap arrangement entered into with the occupational pension scheme of a large UK company (together with an attaching reinsurance treaty) and a much smaller occupational pension scheme buy-in. Under the longevity swap arrangement, Rothesay Life Limited has contracted to make regular payments to the Scheme which reflects the actual longevity experience. The Scheme, in return, makes an agreed schedule of regular payments to the company based on an expected pattern of longevity experience as defined at outset in the contract. This arrangement has the impact of transferring the risk that future mortality improvements are higher than anticipated from the Scheme to the company. Under the terms of the reinsurance arrangements, the company has reassured approximately 72% of this longevity risk across three reinsurers. The company has received an upfront single premium in respect of the occupational scheme buy-in, which provides immediate and deferred annuity benefit payments to the Scheme based on the actual longevity experience of the members of the Scheme.

The long term business provision includes the discounted value of projected future claims payments. For the longevity swap arrangements, the long term business provision also allows for the discounted value of the projected premium cash flows as defined in the contracts. Additionally, the long term business provision includes an allowance for both administration expenses and investment expenses.

The principal economic and non economic assumptions adopted to determine the long term business provision are set out below.

Rothesay Life Limited makes prudent assumptions about its future experience based on market conditions at the valuation date and recent operating experience. The methodology used to setting the assumptions to calculate the long term business provision is identical to that used in determining the assumptions adopted for the FSA Pillar 1 mathematical reserves. However, there may be differences in the assumptions used for the purpose of the long term business provision compared to those used for solvency reporting purposes. One such difference is to assume, for UK GAAP reporting, that the company continues to remain open to new business, rather than allowing for the impact of closure to new business twelve months after the valuation date (which is required under the FSA Pillar 1 basis). The assumptions used incorporate prudent margins to reduce the possibility that actual future experience may be less favourable than that assumed.

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

15. LONG TERM BUSINESS PROVISION (continued)

Economic Assumptions

Valuation rate of interest

The valuation rate of interest used to discount the cash flows for the purpose of the long term business provision is based on the FSA Pillar 1 regulatory requirements, as modified by a waiver granted by FSA in September 2008 to allow the company to reflect the yield (internal rate of return) on the combined matching assets rather than an average yield based on market value weighted durations. It is determined based on the yield obtainable on the basket of assets matching the FSA Pillar 1 mathematical reserves at 31 December 2010.

In accordance with the terms of the waiver granted by the FSA, the interest rate used for discounting future projected cash flows has been derived from the internal rate of return on the basket of assets matching the FSA Pillar 1 mathematical reserves. The allowance for default risk on the matching corporate bond portfolio has been reflected through the use of credit default swaps. The discount rate used to value the liabilities at the valuation date has been reduced by a prudent allowance to reflect investment expenses.

The valuation rate of interest used to discount the liability cash flows at 31 December 2010 was 4.13% p.a. This reflects both the prescribed FSA 2.5% prudential margin applied to the risk adjusted internal rate of return obtained on the basket of matching assets and the allowance for investment expenses of 3 basis points p.a.

Non-Economic Assumptions

a. Mortality

Mortality assumptions are set with reference to standard tables drawn up by the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries.

The base mortality tables used are the PCMA00 and PCFA00 standard tables which are based on industry experience during the period 1999 through 2002. Flat adjustments are applied to these tables which vary by both pension scheme and gender. The adjustments are based on a blend of the results of the underlying experience analysis of the pension scheme data, socio demographic profiling and other external investigations. In addition, a prudential margin is applied to reflect the fact that future mortality experience for the schemes may differ to that observed.

The mortality bases have been determined separately for each pension scheme and the averages, weighted by the valuation of annuity benefits for each pension scheme, are as follows:

Proposed valuation	Percentage of standard table	Standard table used
Females	87.3%	PCFA00
Males	87.3%	PCMA00

An allowance to allow for the impact of future mortality improvements has been made by applying improvement factors to the base rates of mortality described above. The improvement factors differ according to gender. The improvement factors for males are 100% of the average of medium and long cohort improvements with a floor of 1.7%. The improvement factors for females are 100% of medium cohort improvements with a floor of 1.7% for females. These improvement factors have been applied to the base rates of mortality from 2001 onwards.

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

15. LONG TERM BUSINESS PROVISION (continued)

Non-Economic Assumptions (continued)

b. Expenses

An allowance is made for future maintenance expenses following an investigation into the total costs incurred by the company during 2010. As part of this investigation, these costs have been split between acquisition and maintenance expenses. The long term business provisions include an allowance to provide for the expenses payable under the third party administration agreement ('ICA') (allowing for 20% VAT) together with the long term business overhead expenses expressed as an amount per policy. An additional maintenance expense overrun provision has been included to allow for a shortfall in the expense loadings on an open fund basis.

Within these expense provisions, a suitable allowance for future expense inflation has been provided allowing for the impact of both salary and price inflation. The future rate of expense inflation, on an open fund basis is set at RPI (as implied by the RPI swap curve) plus an addition at each duration of 1.25%.

c. Other assumptions

A number of other, less financially significant actuarial assumptions are made in calculating the provisions. These assumptions include the proportion of deferred and immediate annuitants assumed to have a dependant eligible for contingent benefits and the proportion of deferred annuitants opting to take a proportion of their benefit at retirement as a lump sum. Another important actuarial assumption relates to the future rate of escalation of certain benefits, but as the company is holding appropriate matching assets (such as index-linked bonds and inflation-linked swaps), the impact on the overall financial position of the company of actual or assumed changes in these rates is relatively small.

16. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	Reinsurers' share of technical provisions
	£'000
At 31 December 2009	-
Change in reinsurers' share of technical provisions	148,946
At 31 December 2010	148,946

17. TECHNICAL PROVISION FOR LINKED LIABILITIES

	Technical provision for linked liabilities
	£'000
At 31 December 2009	493,999
Change in technical provisions	239,593
At 31 December 2010	733,592

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

18. OTHER LIABILITIES INCLUDING DERIVATIVES

	31 December 2010 £'000	31 December 2009 £'000
Derivative financial instruments	608,702	360,757
Exclude derivative financial instruments included within linked assets	(544,065)	(282,950)
	64,637	77,807
Deposits received as collateral from third party	175,450	13,723
Amounts due to group undertakings	107,505	32,301
	347,592	123,831

The net exposures to OTC derivatives are collateralised through cash. At the balance sheet date, the total cash collateral received from a third party was £175.5m. At the prior balance sheet date, the total cash collateral received from other group undertakings was £13.7m.

19. SUBORDINATED LOANS

	31 December 2010 £'000	31 December 2009 £'000
Long term subordinated loans	20,000	20,000
	20,000	20,000

The amounts outstanding at 31 December 2010 consist of a long term subordinated loan from parent undertakings. The loan is unsecured and carries interest at 3 month LIBOR plus 150bps. The loan principal constitutes regulatory capital as approved by the FSA and is repayable upon giving or receiving at least five years' notice to or from the parent undertakings. The final maturity date is 25 February 2058. The repayment of the subordinated loan is also subject to FSA approval.

20. SHARE CAPITAL

At 31 December 2010 and 31 December 2009 share capital comprised:

	31 December 2010		31 December 2009	
	No.	£'000	No.	£'000
<u>Allotted, called up and fully paid</u>				
Ordinary shares of £1.00 each	135,000,000	135,000	135,000,000	135,000
		135,000		135,000

21. PROFIT AND LOSS ACCOUNT

	Profit and loss account £'000
At 31 December 2009	(58,360)
Profit for the financial period	68,792
At 31 December 2010	10,432

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

22. TOTAL SHAREHOLDER'S FUNDS

	31 December 2010	31 December 2009
	£'000	£'000
Reconciliation of movements in total shareholder's funds		
Profit / (loss) on ordinary activities after taxation	68,792	(15,280)
Issue of ordinary shares	-	55,000
Net increase in shareholder's funds	68,792	39,720
Opening shareholder's funds	76,640	36,920
Closing shareholder's funds	145,432	76,640

23. FINANCIAL RISK MANAGEMENT

The company is exposed to financial risk through its financial assets, financial liabilities and policyholder liabilities. These risks, described below, are managed in accordance with established risk management policies and procedures.

The Goldman Sachs Group, Inc. manages market, credit and liquidity risk on a consistent, firmwide basis. Consequently, the company, as part of a global group, adheres to global risk management policies and procedures.

The company seeks to monitor and control its risk exposure through a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems. In addition, a number of committees are responsible for monitoring risk exposures and for general oversight of the company's risk management process. In addition to the committees, independent functions such as Compliance, Finance (including Risk Management), Legal, Internal Audit and Operations perform global risk management functions, which include monitoring, analysing and evaluating risk.

a. Market risk

Market risk is the risk of loss in the value of the company's investing positions due to changes in market prices. Financial investments are accounted for at fair value and, therefore, fluctuate on a daily basis.

Categories of market risk include the following:

- interest rate risk primarily results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates, mortgage prepayment speeds and credit spreads. Each increase/decrease of 1 basis point in interest yields would result in an additional profit/loss of £143,540.
- inflation rate risks result from volatility of inflation rates. Each increase/decrease of 1 basis point in inflation expectation would result in an additional loss/profit of £108,743.
- currency rate risk results from exposures to changes in spot prices, forward prices and volatilities of currency rates. Due to immaterial currency exposure no sensitivity analysis is performed.

The company seeks to manage these risks through diversifying exposures, controlling position sizes and establishing hedges in related securities or derivatives. The ability to manage an exposure may, however, be limited by adverse changes in the liquidity of the security of the related hedge instrument and in the correlation of price movements between the security and the related hedge instrument.

In addition to applying business judgement, senior management uses a number of quantitative tools to manage the exposure to market risk for 'other financial investments' in the financial statements. These tools include scenario analyses, stress tests and other analytical tools that measure the potential effects on the net revenues of various market events, including, but not limited to, a large widening of credit spreads, as well as volatility in interest, inflation and mortality rates.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

23. FINANCIAL RISK MANAGEMENT (continued)

b. Credit risk

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty, e.g. an OTC derivatives counterparty or an issuer of corporate debt. Credit risk also comes from cash placed with banks and securities financing transactions, i.e. resale and repurchase agreements, customers and counterparties.

To measure and manage credit exposures, the company uses a variety of tools, including credit limits referenced to both current exposure and potential exposure. Potential exposure is generally based on projected worst-case market movements over the life of the transactions. To supplement its primary credit exposure measures the company also uses scenario analyses, such as credit spread widening scenarios, stress tests and other quantitative tools.

The company's global credit management systems monitor credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates.

Derivatives

Derivative contracts are instruments, such as forwards, swaps or option contracts, that derive their value from underlying assets, indices, reference rates or a combination of these factors. Derivative instruments may be privately negotiated contracts, which are often referred to as OTC derivatives, or they may be listed and traded on an exchange.

Substantially all of the company's derivative transactions are entered into as a means of risk management. Derivative contracts are used to manage currency exposure on the company's net investment in non sterling investments and to manage the interest rate and inflation exposure on policyholder liabilities.

Derivatives are used in the company's business, and the company believes that the associated market risk can only be understood relative to all of the underlying assets or risks being hedged. Accordingly, the market risk of derivative positions is managed together with the company's non-derivative positions.

The fair value of the derivatives contracts is reflected net of cash paid or received pursuant to credit support agreements and is reported on a gross-by-counterparty basis in the financial statements unless the company has a legal right of set off and also intends to settle on a net basis. For an OTC derivative, the company's credit exposure is directly with the company's counterparty and continues until the maturity or termination of such contract.

Derivative transactions may also involve legal risks including the risk that they are not authorised or appropriate for a counterparty, that documentation has not been properly executed or that executed agreements may not be enforceable against the counterparty. The company attempts to minimise these risks by obtaining advice of counsel on the enforceability of agreements as well as on the authority of a counterparty to effect the derivative transaction.

On 15 July 2010, the company was granted a waiver to INSPRU 3.2.5R(3). This allowed the company to treat a derivative contract with a pension scheme as an admissible asset. The purpose of the derivative contract is to provide a hedge for a specific pension scheme against market risk. The company has hedged this risk with a derivative contract with an approved counterparty.

The following tables represents the company's maximum exposure to credit risk without taking account of the value of collateral obtained or any other credit enhancements:

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

23. FINANCIAL RISK MANAGEMENT (continued)

b. Credit risk (continued)

Exposure to credit risk before collateral and credit enhancements	31 December 2010	31 December 2009
	£'000	£'000
Collective investment schemes	150,164	170,497
Debt securities	606,838	590,622
Derivative assets	665,293	356,369
Repurchase and resale agreement	62,895	-
Derivative liabilities held within assets held to cover linked liabilities	(544,065)	(282,950)
Reinsurers' share of technical provisions	148,946	-
Debtors arising out of direct insurance operations	3,880	18,439
Other debtors	277,537	22,203
Prepayments and accrued income	15,299	14,184
Cash at bank and in hand	1,722	351
Total assets bearing credit risk	1,388,509	889,715

Credit rating before collateral and credit enhancements	31 December 2010	31 December 2009
	£'000	£'000
AAA	-	170,553
AA	35,080	113,764
A	710,889	77,912
BBB	424,950	348,729
BB	154,199	139,943
B	50,677	38,013
CCC	5,628	-
Unrated	7,086	801
Total assets bearing credit risk	1,388,509	889,715

The above groups exposure based on internal ratings assigned by the credit department. Credit default swaps and a total return swap have been purchased to mitigate the credit exposure on the company's corporate bonds, collateralised with cash (see note 10).

c. Liquidity risk

Liquidity is of critical importance to companies in the financial services sector. Accordingly, the company has in place a comprehensive and conservative set of liquidity and funding policies to address both company-specific and broader industry or market liquidity events.

Management has implemented a number of policies according to the following liquidity risk management framework:

- excess liquidity – the company maintains substantial excess liquidity to meet a broad range of potential cash outflows in a stressed environment including financing obligations.
- asset-liability management – the company seeks to maintain funding sources that are sufficiently long term in order to withstand a prolonged or severe liquidity-stressed environment without having to rely on asset sales.

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

23. FINANCIAL RISK MANAGEMENT (continued)

c. Liquidity risk (continued)

The following table details the company's undiscounted cash flows of its financial liabilities and assets by contractual maturity excluding technical provisions. Other financial investments are presented at their fair value.

31 December 2010

Financial liabilities

	On Demand	Not more than one month	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Claims outstanding	11,563	-	-	-	-	-	11,563
Other creditors	175,450	-	-	21	108,555	63,566	347,592
Subordinated loans	-	-	112	335	1,785	20,000	22,232
Accruals and deferred income	-	123	-	1,032	1,793	5,019	7,967
	187,013	123	112	1,388	112,133	88,585	389,354

31 December 2009

Financial liabilities

	On Demand	Not more than one month	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Claims outstanding	12,714	12,874	3,265	-	-	-	28,853
Other creditors	13,723	8	4,247	28,554	8,224	69,075	123,831
Subordinated loans	-	-	110	329	1,754	20,000	22,193
Accruals and deferred income	-	124	180	-	-	-	304
	26,437	13,006	7,802	28,883	9,978	89,075	175,181

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

23. FINANCIAL RISK MANAGEMENT (continued)

c. Liquidity risk (continued)

31 December 2010

Financial assets

	On Demand	Not more than one month	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Other financial investments	150,164	-	-	2,149	18,488	185,558	356,359
Assets held to cover linked liabilities	-	-	-	7,826	60,624	516,316	584,766
Debtors arising out of direct insurance operations	-	-	3,880	-	-	-	3,880
Other debtors	177,537	-	-	-	100,000	-	277,537
Prepayments and accrued income	-	3,253	5,084	6,962	-	-	15,299
Cash	1,722	-	-	-	-	-	1,722
	329,423	3,253	8,964	16,937	179,112	701,874	1,239,563

31 December 2009

Financial assets

	On Demand	Not more than one month	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Other financial investments	135,463	-	-	-	20,165	184,911	340,539
Assets held to cover linked liabilities	35,035	-	-	-	72,955	386,009	493,999
Debtors arising out of direct insurance operations	-	-	18,439	-	-	-	18,439
Other debtors	21,900	303	-	-	-	-	22,203
Prepayments and accrued income	-	3,690	3,679	6,815	-	-	14,184
Cash	351	-	-	-	-	-	351
	192,749	3,993	22,118	6,815	93,120	570,920	889,715

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

23. FINANCIAL RISK MANAGEMENT (continued)

d. Fair value hierarchy

FRS29 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources. Unobservable inputs reflect the company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes the majority of the OTC derivative contracts, debt instruments, collective investment schemes and securities purchased under agreements to resell.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes derivatives with significant unobservable components.

The hierarchy requires the use of observable market data when available. The company considers relevant and observable market prices in its valuations where possible. The following table presents the company's financial investments measured at fair value at 31 December 2010.

31 December 2010	Level 1	Level 2	Level 3	Total balance
	£'000	£'000	£'000	£'000
Other financial assets:				
Collective investment schemes	-	150,164	-	150,164
Debt securities	-	129,050	-	129,050
Derivative assets	-	67,511	2,850	70,361
Repurchase and resale agreements	-	6,784	-	6,784
Assets held to cover linked liabilities	-	584,766	-	584,766
	-	938,275	2,850	941,125

31 December 2010	Level 1	Level 2	Level 3	Total balance
	£'000	£'000	£'000	£'000
Other financial liabilities:				
Derivative liabilities	-	(64,637)	-	(64,637)
	-	(64,637)	-	(64,637)

During 2010, there were no transfers between Level 1 and 2. The following table presents the changes in Level 3 instruments for the year ended 31 December 2010.

Reconciliation of Level 3 Items:	Debt securities	Derivatives	Total financial investments
	£'000	£'000	£'000
At 31 December 2009	16,359	-	16,359
Profit or loss	-	(812)	(812)
Transfers into or out of Level 3	(16,359)	3,662	(12,697)
At 31 December 2010	-	2,850	2,850

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

23. FINANCIAL RISK MANAGEMENT (continued)

d. Fair value hierarchy (continued)

In relation to sensitivity of Level 3 disclosures, there would be no significant impact to the profit and loss from the use of alternative inputs due to the nature of fully hedged positions.

e. Fair value of financial instruments

For financial assets not measured at fair value, the carrying amounts in the balance sheet are a reasonable approximation of fair value given the short term nature of these instruments, with the exception of the below:

	Carrying value £'000	Approximate fair value £'000
Long-term subordinated debt (see note 19)	20,000	19,575

The long term subordinated loan is repayable upon giving or receiving at least five years' notice to or from the parent undertaking. Consequently, the fair value of the long term subordinated debt has been determined on the assumption that all loans are repaid on the earliest potential repayment date, although repayment is subject to FSA approval.

f. Current mortality rates

Rothesay Life Limited is exposed to the risk that mortality experience is lower than assumed which would require payments to be made for longer and so increase the costs of benefits provided. The company regularly reviews its mortality experience and industry projections for future rate of improvement in mortality rates and adjusts its valuation and pricing assumptions accordingly.

Separate mortality investigations were performed for each pension scheme at the end of 2010. Where the data were statistically credible, the mortality assumptions used in the valuation are based on this actual mortality experience, with a prudential margin to reflect that future mortality experience for the schemes may differ to that observed. Where the data are not statistically credible, the company has also taken account of reinsurance quotes and a number of socio demographic analyses of the scheme data, based on postcode and other factors.

Allowance is made for future improvements in annuitant mortality based on experience and externally published data as described in note 15.

24. CAPITAL MANAGEMENT

The company's capital resources are of critical importance to senior management. The objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risk inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders and regulators;
- to retain financial flexibility by maintaining strong liquidity; and
- to allocate capital efficiently to support growth.

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

24. CAPITAL MANAGEMENT (continued)

As at 31 December 2010 the company had sufficient capital available to meet its capital requirements. The company holds both debt and equity to optimise its capital structure and improve shareholder return.

The company is required to hold sufficient capital to meet the FSA's capital requirements calculated on the statutory basis, which is based on EU Directives. As is required with all regulated insurance businesses, the company also monitors its Individual Capital Assessment ('ICA') which considers certain business risks not reflected in the statutory basis.

The available capital is subject to certain restrictions as to its availability to meet capital requirements. In particular, no transfers from long term funds can take place without an up to date actuarial valuation.

The capital held within the shareholder's fund is generally available to meet any requirements. It remains the intention of management to ensure that there is adequate capital to exceed the company's regulatory requirements.

Total available capital resources at 31 December 2010 are £161,949,000 (31 December 2009 £71,997,000) of which:

	Long term fund	Shareholder's funds	Total
At 31 December 2010	£'000	£'000	£'000
Shareholder's funds outside long term fund	-	54,923	54,923
Shareholder's funds held in long term fund	90,509	-	90,509
Total shareholder's funds	90,509	54,923	145,432
Adjustments onto regulatory basis	16,517	-	16,517
Total available capital resources	107,026	54,923	161,949

	Long term fund	Shareholder's funds	Total
At 31 December 2009	£'000	£'000	£'000
Shareholder's funds outside long term fund	-	55,017	55,017
Shareholder's funds held in long term fund	21,623	-	21,623
Total shareholder's funds	21,623	55,017	76,640
Adjustments onto regulatory basis	(4,643)	-	(4,643)
Total available capital resources	16,980	55,017	71,997

The company does not write any with profits or unit linked business.

The company is required to hold sufficient capital to meet the FSA capital requirements, based on the higher of Capital Resources Requirement ('CRR') determined in accordance with the FSA's regulatory rules, and the ICA.

Management intends to maintain surplus capital in excess of the higher of the CRR and ICA to meet the FSA's total requirements, and to maintain an appropriate additional margin over this to absorb changes in capital requirements.

At 31 December 2010 the available capital was 350% (31 December 2009: 271%) of the capital requirement of £46,239,000 (31 December 2009: £26,600,000)

ROTHESAY LIFE LIMITED

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24. CAPITAL MANAGEMENT (continued)

Movements in capital resources

	31 December 2010	31 December 2009
	£'000	£'000
Opening balance	71,997	65,390
New business	13,803	(2,355)
Change in assumptions	87,652	(41,809)
Management of in force book	(7,244)	34,800
Investment performance	(5,987)	20,460
Other factors	1,728	(4,489)
Closing balance	161,949	71,997

This represents an increase in surplus following the release of the negative mathematical reserves partially offset by the increase in the expense reserve.

Capital resource sensitivities

The capital position is sensitive to changes in market conditions, due to changes in the value of the assets and the effect that changes in investment conditions may have on the value of the liabilities. Management monitor these assumptions and market conditions and would take appropriate action if relevant.

Longevity is the company's main risk. The capital position is sensitive to assumptions and experience relating to longevity and to a lesser extent expenses and persistency. The long term liabilities of the company increase by approximately £53.0m for an extra year of life expectancy and therefore regulatory capital resources will reduce by a similar amount.

Rothsay Life Limited is exposed to changes in market conditions but controls its exposure to the various elements of this risk as follows:

- **interest and inflation rates risk:** A portfolio of interest and inflation swaps is structured such that each basis point movement in interest rates or inflation will change the value of assets and best estimate liabilities by a similar amount.
- **credit risk:** The company holds a matching collateralised credit default swap or total return swap for each corporate bond held. It therefore has a reduced risk of reductions in regulatory capital resources caused by defaults on corporate bonds.
- **currency risk:** The company holds some Euro, US Dollar and Japanese Yen denominated corporate bonds. All foreign currency coupon and principal receipts are swapped for sterling cashflows thereby reducing the risk of volatility in regulatory capital resources due to exchange rate movements.

Management monitor market conditions and emerging longevity experience on a regular basis. As these conditions change, management will take remedial action such as adjustment of hedging strategies if appropriate.

25. FINANCIAL COMMITMENTS AND CONTINGENCIES

There are no commitments and contingencies outstanding at the period end (31 December 2009: £Nil).

ROTHESAY LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

26. ULTIMATE AND IMMEDIATE PARENT UNDERTAKINGS

Rothsay Life (Cayman) Limited is the controlling company and parent company, which is incorporated in the Cayman Islands.

The ultimate parent undertaking and the parent company of the largest group for which consolidated financial statements are prepared is The Goldman Sachs Group, Inc.. The principal place of business, from which copies of its accounts can be obtained, is 200 West Street, New York, NY 10282, United States of America. This company is incorporated in the United States of America.