

Introduction

This part of the document provides a summary of the Independent Actuary's Report that I have prepared, having been appointed by Halifax Assurance Ireland Limited ("HAIL") and St. Andrews Life Assurance plc ("SALA"). The full report is available on request from the offices of HAIL and SALA and on the internet at www.halifax.co.uk/ppipolicytransfer. The Central Bank of Ireland has been notified of my appointment as an Independent Actuary to report on the proposed Scheme.

The Independent Actuary's Report is required under Section 13 of the Assurance Companies Act 1909 in order that the High Court of Ireland may properly assess the impact of the proposed Scheme of Transfer on all affected policyholders. It describes the proposed transfer of business under the Scheme of Transfer and assesses its likely effects on policyholders of HAIL and SALA, including effects on benefit security and benefit expectations.

The terms covering the proposed transfer are set out in the Scheme document that will be presented to the Irish High Court. I refer to that document as the "Scheme of Transfer". It is anticipated that the Scheme of Transfer will be presented to the Court under Section 13 of the Assurance Companies Act 1909 in July 2012 with a proposed effective date of 31 October 2012 ("Effective Date").

I have been provided with access to sufficient information to assess the proposed Scheme of Transfer and have had sufficient access to the relevant members of staff at HAIL and SALA and their advisors to understand the impact of the proposals on all policyholders of both companies. Neither the independent actuary's report, nor any extract from it, may be published without my specific written consent having been given, save that copies of the independent actuary's report may be made available for inspection by policyholders and shareholders of both HAIL and SALA and copies may be provided to any person requesting the same in accordance with legal requirements or any order of the Irish High Court. In the event such consent is provided, the independent actuary's report must be provided in its entirety.

A summary of my Independent Actuary's Report is set out below.

Background to HAIL and SALA

My full report contains a summary of the products offered by HAIL and SALA, together with financial details of both companies and their recent solvency position. I have not reproduced these details in this summary as my full report is available on request from HAIL and SALA.

Effect of the Scheme

The Scheme of Transfer provides for the transfer of HAIL's life assurance business, incorporating the insurance policies, together with the associated liabilities and assets as at the Effective Date to SALA, such that the policyholder liabilities are extinguished in HAIL. The assets being transferred are sufficient to cover the transferring liabilities. There are certain items excluded from the Scheme of Transfer and will remain with HAIL. Non policyholder related liabilities and all other assets are excluded from the Scheme of Transfer and will remain in HAIL.

It is proposed that there be no further monetary consideration made by SALA for the transfer of the business other than the amounts to be transferred above.

I note that under the Scheme of Transfer:

- there will be no changes to HAIL or SALA policyholder terms or conditions as a result of the Scheme of Transfer;
- there are no plans to change the existing administration of HAIL or SALA policies as a result of the Scheme of Transfer.

As a result of the Scheme, there will be no change to the approach to the exercise of discretionary powers available to HAIL or SALA.

Effect on transferring HAIL policyholders

Security of benefits

I note that there is a strong regulatory capital position in HAIL at 31 December 2011 before the Scheme of Transfer. I note that the regulatory capital position remains strong on a standalone and a combined basis after the proposed Scheme of Transfer from the perspective of the transferring HAIL policyholders based on the proforma financial analysis prepared.

HAIL and SALA are both part of the Lloyds Banking Group ("LBG"). I have been advised that LBG can provide capital support to HAIL and/or SALA if required. The availability of this support is not impacted, whether the Scheme takes place or not.

The risk profile of SALA after the Scheme of Transfer should not be materially changed from its risk profile before the transfer as the types of risks inherent in HAIL's life assurance business (i.e. payment protection insurance ("PPI")) are similar to the PPI business underwritten by SALA (which is a component of SALA's overall life assurance business).

I am therefore able to conclude that there will be no material adverse effect on the security of benefits for the transferring HAIL policyholders as a result of the Scheme.

Benefit Expectations

There will be no changes to policyholder terms and conditions in respect of the transferring policies. As the policyholder terms and conditions remain unchanged, policyholders will be treated in the same manner with SALA as would be the case with HAIL. The range of discretionary powers available to HAIL in respect of the transferring policies is reasonably limited and principally includes the assessment as to whether a PPI claim is valid or not; the level of premium to be refunded to a policyholder in respect of certain single premium policies in the event of their surrender; and the ability to change the level of premium paid by policyholders on certain policies. I have discussed current discretionary practices with both the HAIL Appointed Actuary and the SALA Actuarial Function Holder. I do not consider that the current approach to the exercise of discretion will change as a result of the Scheme of Transfer.

Overall, I am therefore able to conclude that there will be no adverse effect on the benefit expectations of the transferring HAIL policyholders.

Effect on existing SALA policyholders

Security of benefits

I note that there is a strong regulatory capital position in SALA before the Scheme of Transfer. I note that the regulatory capital position remains strong on a standalone and a combined basis after the proposed Scheme of Transfer from the perspective of the existing SALA policyholders based on the proforma financial analysis prepared.

HAIL and SALA are both part of the LBG. I have been advised that LBG can provide capital support to HAIL and/or SALA if required. The availability of this support is not impacted, whether the Scheme takes place or not.

The risk profile of SALA after the Scheme of Transfer should not be materially changed from its risk profile before the transfer as the types of risks inherent in HAIL's life assurance business are similar to the PPI business underwritten by SALA (which is a component of SALA's overall life assurance business).

I am therefore able to conclude that there will be no material adverse effect on the security of benefits for the existing SALA policyholders as a result of the Scheme of Transfer.

Benefit expectations

There will be no changes to policyholder terms and conditions in respect of the existing SALA policies. As the policyholder terms and conditions remain unchanged, policyholders will be treated in the same manner with SALA as they would have been pre transfer.

Overall, I am therefore able to conclude that there will be no adverse effect on the benefit expectations of the existing SALA policyholders.

Other Considerations

If any risks materialise or operative errors are made as a result of the actual transfer of business, the companies will be duty bound under standard regulatory processes to put policyholders in the same position they would have been in had the errors not been made. I have no reason to believe that the service levels for transferring HAIL policies or existing SALA policies are likely to suffer any material diminution as a result of the implementation of the Scheme.

Policyholder Communication

The terms of the proposed scheme of transfer are such that there will be no material adverse effects for policyholders of HAIL and SALA and, in consequence, I believe that the proposed notification arrangements are satisfactory.

It is proposed, subject to Court approval, to only transmit the policyholder information pack, including this summary report prepared by me as Independent Actuary, to HAIL policyholders. On the basis that the transferring business is not material to SALA in terms of total assets, total liabilities and regulatory capital and the solvency position of SALA would not be adversely affected by the Scheme, it is proposed, subject to Court approval, not to transmit the documentation required by Section 13 of the Assurance Companies Act 1909 to SALA policyholders but rather to make that documentation available on the internet and upon request through SALA to SALA policyholders.

It is my conclusion that HAIL policyholders will not be disadvantaged by transmission of this summary report rather than the full text of my Independent Actuary Report and SALA policyholders will not be disadvantaged by not receiving either this summary or the full text of my Independent Actuary Report.

Conclusions

Having considered the impact of the Scheme on the transferring policyholders of HAIL and on the existing policyholders of SALA, it is my opinion that the Scheme:

- Will not have a material adverse effect on the security of benefits for any of the policyholders involved; and
- Will not have a material adverse effect on the reasonable benefit expectations of any of the policyholders involved.

My opinion in relation to HAIL and SALA policyholders is based on:

- My review of all the pertinent historic and current information provided by HAIL and SALA;
- The investigations completed by the HAIL Appointed Actuary and the SALA Actuarial Function Holder and their respective conclusions based on those investigations, as set out in their actuarial reports; and
- Discussions with the management of HAIL and SALA on what will happen post Transfer.

My assessments are made in the context of the Irish regulatory regime.



21 June 2012

Brian Morrissey, FSAI

Date

Independent Actuary
KPMG in Ireland