

Introduction

This part of the document provides a summary of the Independent Actuary's Report that I have prepared, having been appointed by Halifax Insurance Ireland Limited ("HIIL") and St. Andrews Insurance plc ("StAI"). The full report is available on request from the offices of HIIL and StAI 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 assists the High Court of Ireland with properly assessing 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 HIIL and StAI, 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 1909 Act 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 HIIL and StAI 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 HIIL and StAI 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 HIIL and StAI

My full report contains a summary of the products offered by HIIL and StAI, 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 HIIL and StAI.

Effect of the Scheme

The Scheme of Transfer provides for the transfer of HIL's non life insurance business, incorporating the insurance policies, together with the associated liabilities and assets as at the Effective Date to StAI, such that the policyholder liabilities are extinguished in HIL. 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 HIL. Non policyholder related liabilities and all other assets are excluded from the Scheme of Transfer and will remain in HIL.

It is proposed that there be no further monetary consideration made by StAI 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 HIL or StAI policyholder terms or conditions as a result of the Scheme of Transfer; and
- there are no plans to change the existing administration of HIL or StAI 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 HIL or StAI.

Effect on transferring HIL policyholders

Security of benefits

I note that there is a strong regulatory capital position in HIL at 31 December 2011 before the Scheme of Transfer. I note that the regulatory capital position in StAI after the proposed Scheme of Transfer will have reduced though will still remain in excess of the minimum regulatory capital requirements and internal capital targets on the proforma financial analysis prepared.

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

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

I am therefore able to conclude that there will be no material adverse effect on the security of benefits for the transferring HIL 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 StAI as would be the case with HIL. The range of discretionary powers available to HIL 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 HIL and StAI. 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 HIL policyholders.

Effect on existing StAI policyholders

Security of benefits

I note that there is a strong regulatory capital position in StAI before the Scheme of Transfer on a UK regulatory basis. I note that the regulatory capital position reduces after the proposed Scheme of Transfer though will remain in excess of the minimum regulatory capital requirements and internal capital targets from the perspective of the existing StAI policyholders based on the proforma financial analysis prepared.

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

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

I am therefore able to conclude that there will be no material adverse effect on the security of benefits for the existing StAI 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 StAI policies. As the policyholder terms and conditions remain unchanged, policyholders will be treated in the same manner with StAI 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 StAI 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 HIL policies or existing StAI 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 HIL and StAI and, in consequence, I believe that the proposed notification arrangements are satisfactory.

Though not a statutory requirement for HIL, it is proposed, to transmit a policyholder information pack, which will include this summary report prepared by me as Independent Actuary, to HIL policyholders. I am satisfied that HIL policyholders will not be disadvantaged by transmission of this summary report rather than the full text of my Independent Actuary Report.

StAI does not intend to write to its policyholders. On the basis that StAI solvency coverage post transfer remains in excess of StAI's solvency capital internal target, I am satisfied that StAI 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 HIIL and on the existing policyholders of StAI, 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 HIIL and StAI policyholders is based on:

- My review of all the pertinent historic and current information provided by HIIL and StAI; and
- Discussions with the management of HIIL and StAI on what will happen post Transfer.

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



Noel Garvey, FSAI

Independent Actuary
KPMG in Ireland

Tel: +353 1 700 4122
e-Mail: noel.garvey@kpmg.ie

21 June 2012

Date