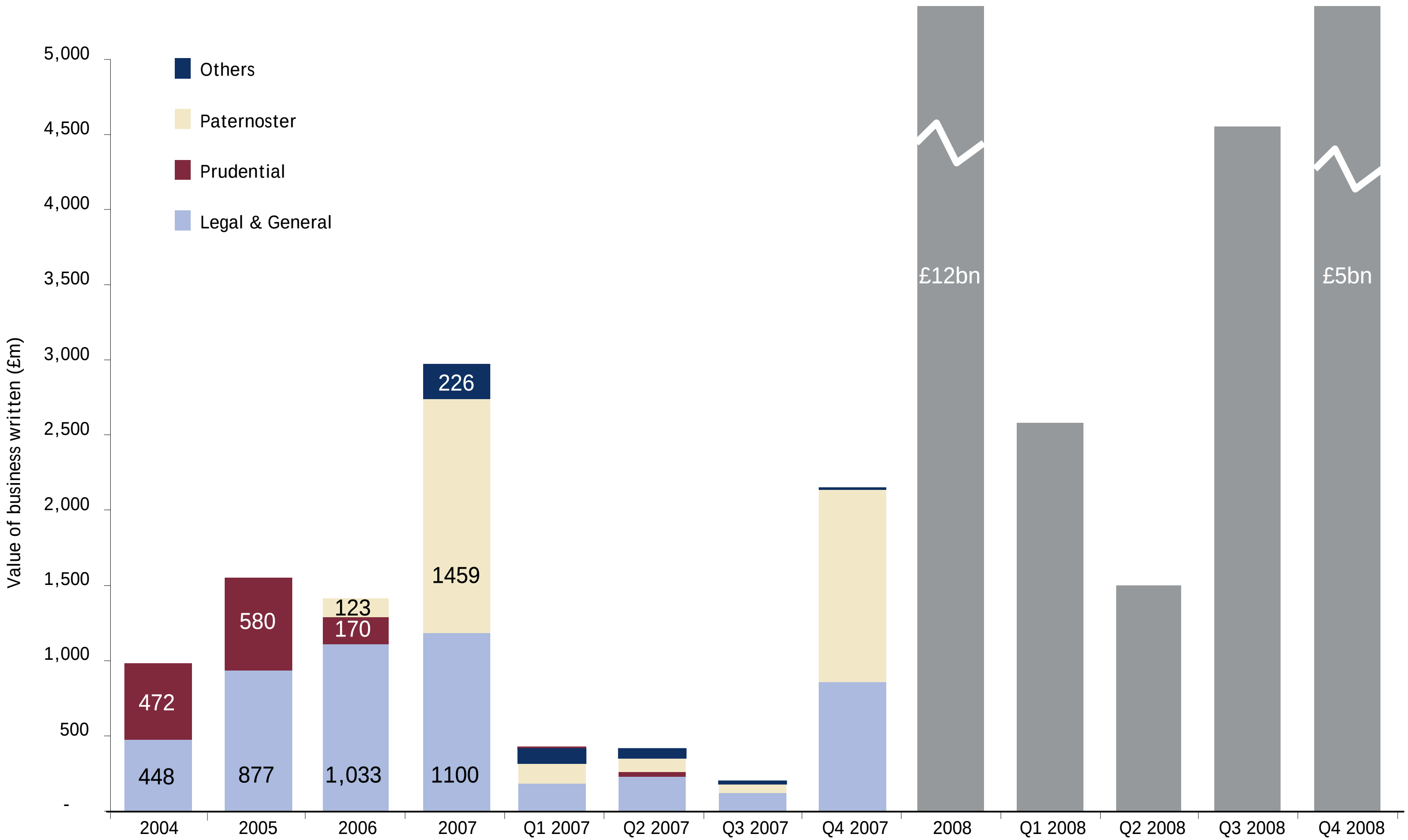
Market share and outlook as at 31 May 2008



Key trades 2007 & 2008

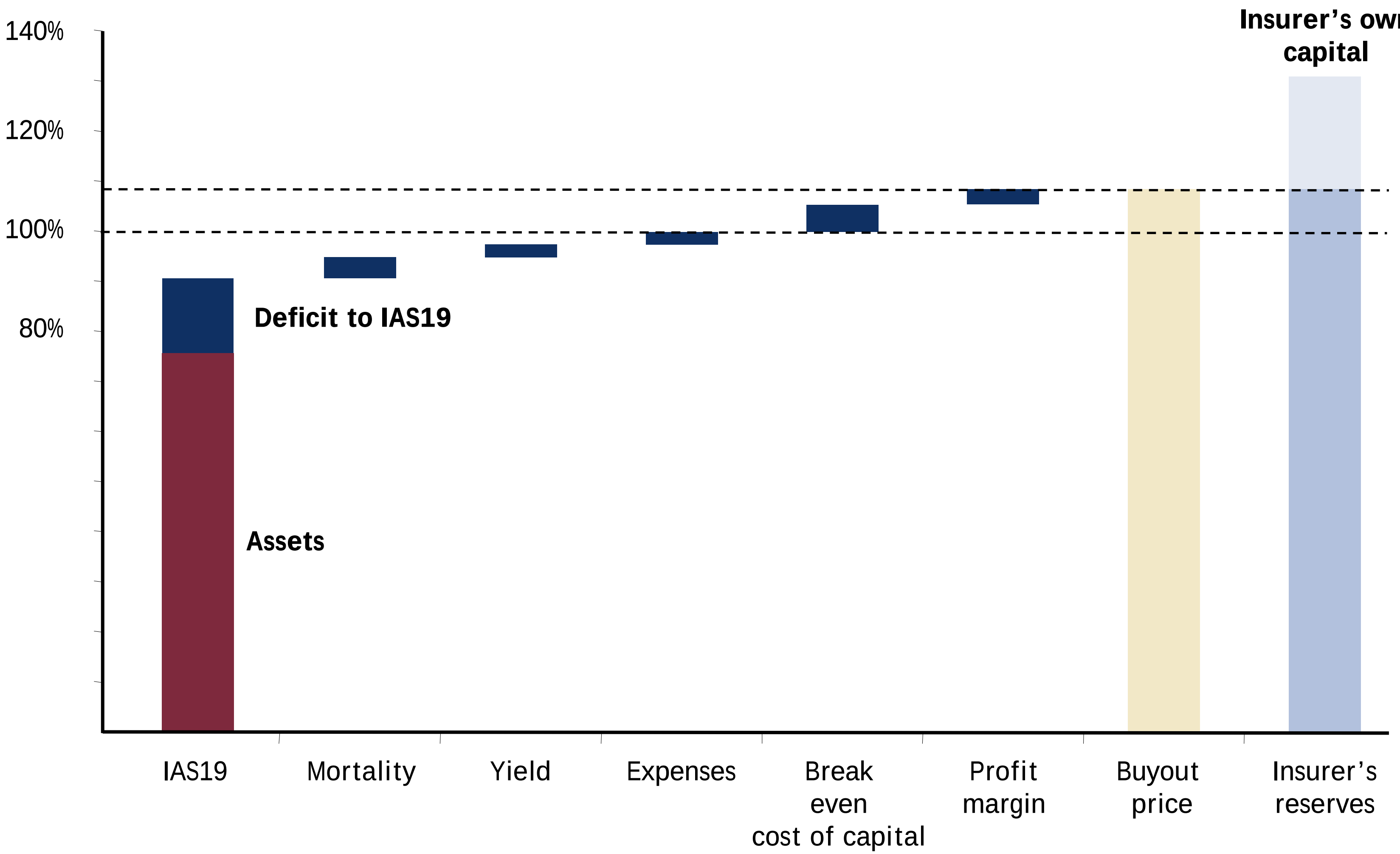
Year	Scheme	Approx. size	Annuity provider
2007	P&O	£ 815 m	PATERNOSTER
2007	The Weir Group PLC	£ 240 m	Legal & General
2007	emap	£ 170 m	PATERNOSTER
2007	Morgan Crucible	£ 160 m	Lucida
2007	Eni	£ 150 m	PATERNOSTER
2008	Rank Group	£ 700 m	Rothesaylife
2008	DELTA	£ 470 m	PENSION INSURANCE CORPORATION
2008	citi	£ 390 m	PATERNOSTER
2008	FRIENDS PROVIDENT	£ 360 m	NORWICH UNION
2008	The TI Group	£ 250 m	Legal & General

The defined benefit risk transfer market

Cliff Speed, Investment Director
26 June 2008

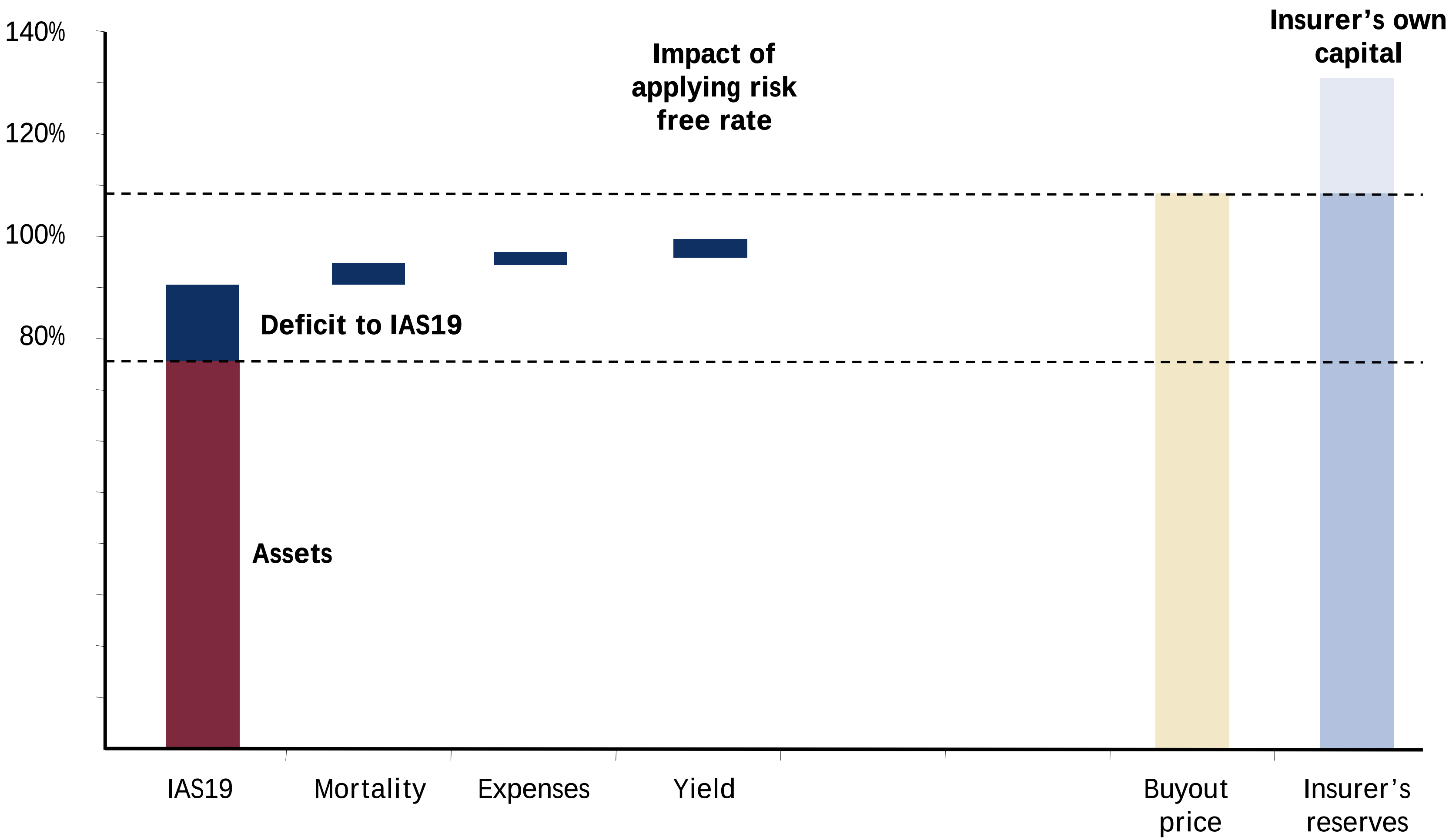
PATERNOSTER

The cost of buy-out: an example



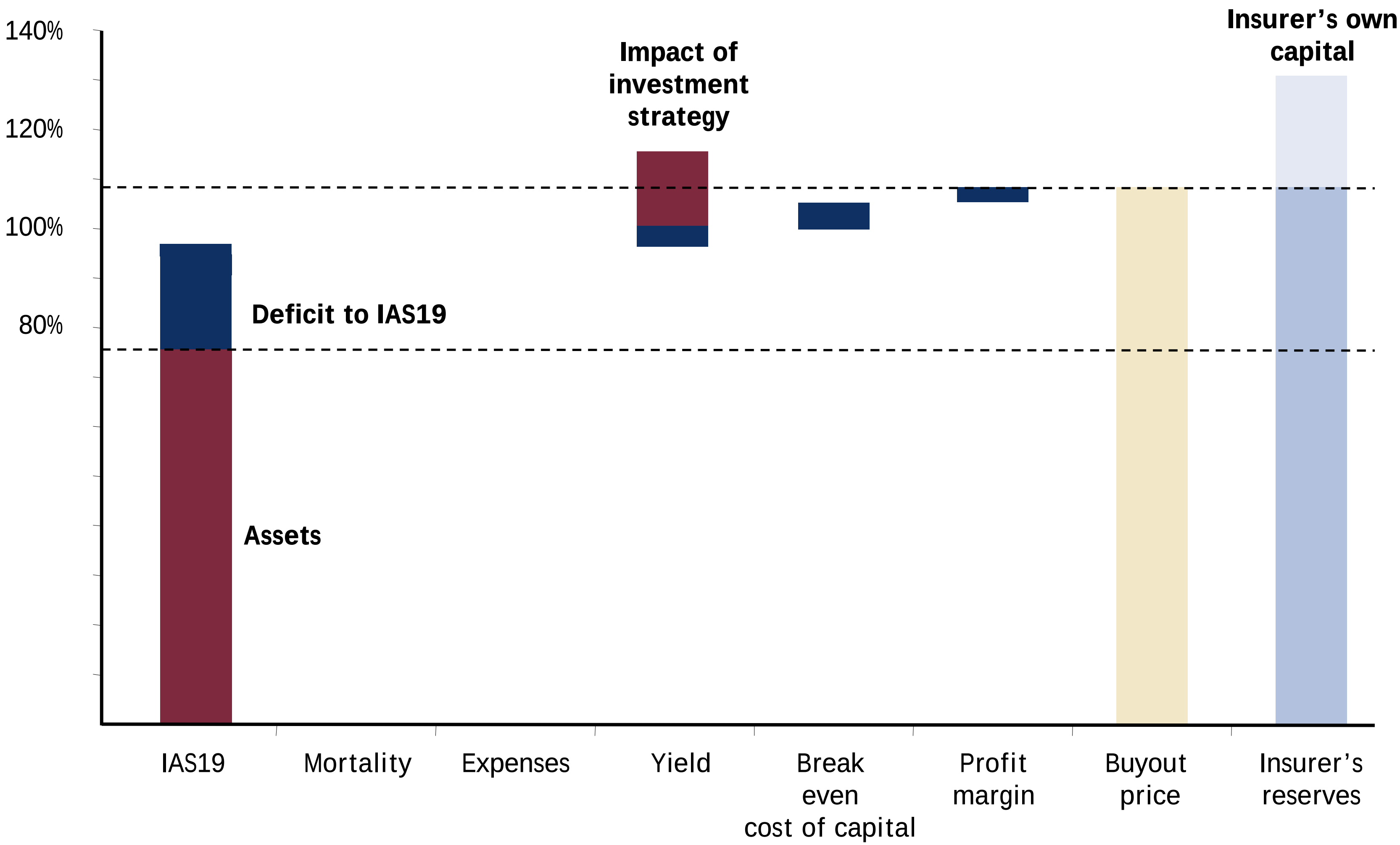
Source: Paternoster

Effect of tPR and ASB proposals



Source: Paternoster

Effect of tPR and ASB proposals

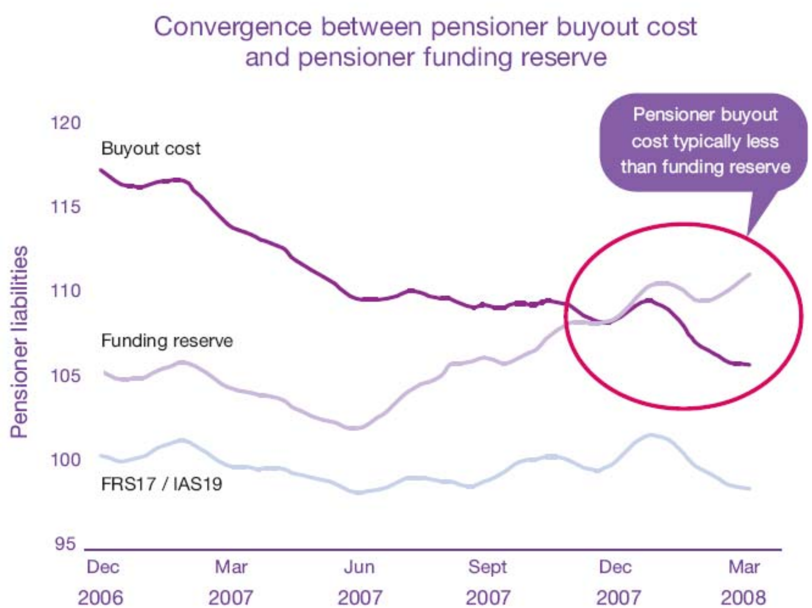


Source: Paternoster

Examining annuity pricing - drivers of price

It is widely recognised that pricing in the annuity market is at historically low levels in both relative and absolute terms...

Lane Clark & Peacock liability index

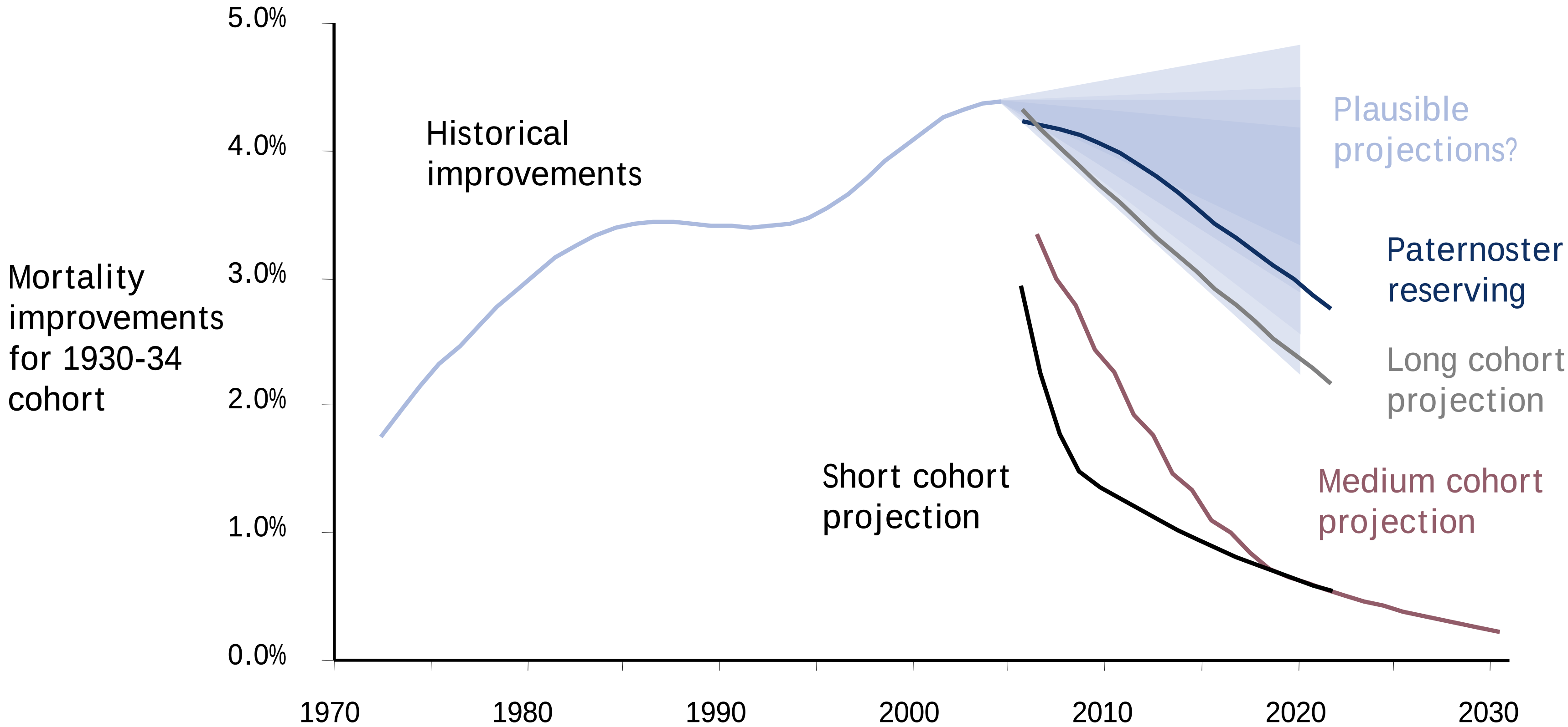


Drivers of annuity pricing

- Reduced risk margins
  - Increased competition
  - New entrants have no legacy or need for cross-subsidy
  - More accurate mortality assessment
- More sophisticated investment techniques
  - Greater use of derivatives market
  - Improved risk-adjusted and capital-adjusted investment models
- Rising AA bond yields
  - Adjusted for default risk
  - Very favourable “buy-and-hold” environment

Illustrating the mortality debate

Pension schemes and insurance companies have varying views on projections for mortality improvements…



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Comparing “buy-out” with “buy-in”

A “buy-in” policy brings all the financial risk management of a “buy-out” without the transfer of responsibility for direct contact with members…

	“Buy-out”	“Buy-in”
Risks removed	Mortality, married proportion, investment, inflation, model risks Operational risks	Mortality, married proportion, investment, inflation, model risks
Risks retained	None other than completion of wind-up	Operational risks Risks associated with members not included in policy
Covenant	Full reliance on insurance covenant	Combination of insurance and employer covenants
Other protections	FSCS	FSCS PPF
Role of trustees	Wind-up scheme: reconcile and equalise GMPs; cleanse data	"Business as usual" "Outsourcing" of financial risks for insured members Trustees retain discretions
Member perception	Complete transfer to insurer Discharge of trustee obligations	**No change**

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