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High Court of Justice

RGA Reinsurance UK Limited
and
RGA International Reinsurance Company Limited

Report of the Independent Expert under Section 109 of the Financial Services and Markets Act 2000

KPMG LLP

19 August 2011

This report contains 46 pages including appendices.

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complete and accurate information and to make clear to me any caveats which apply to the data and information. In addition, and as part of my review and challenge process, I have wherever possible reviewed the information provided for reasonableness and consistency with industry best practice. Where critical information has been initially

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any of the business written is sufficiently different for the relevant policyholders to be regarded as a distinct sub-group for the purposes of my analysis of the proposed transfer.

3.1.3 Business structure

Legend

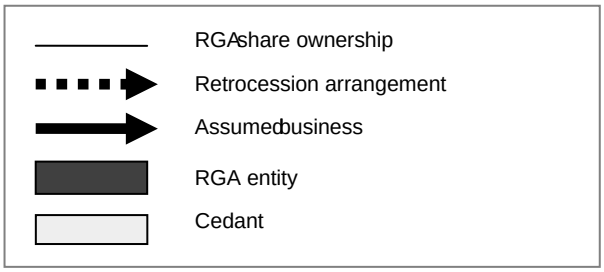
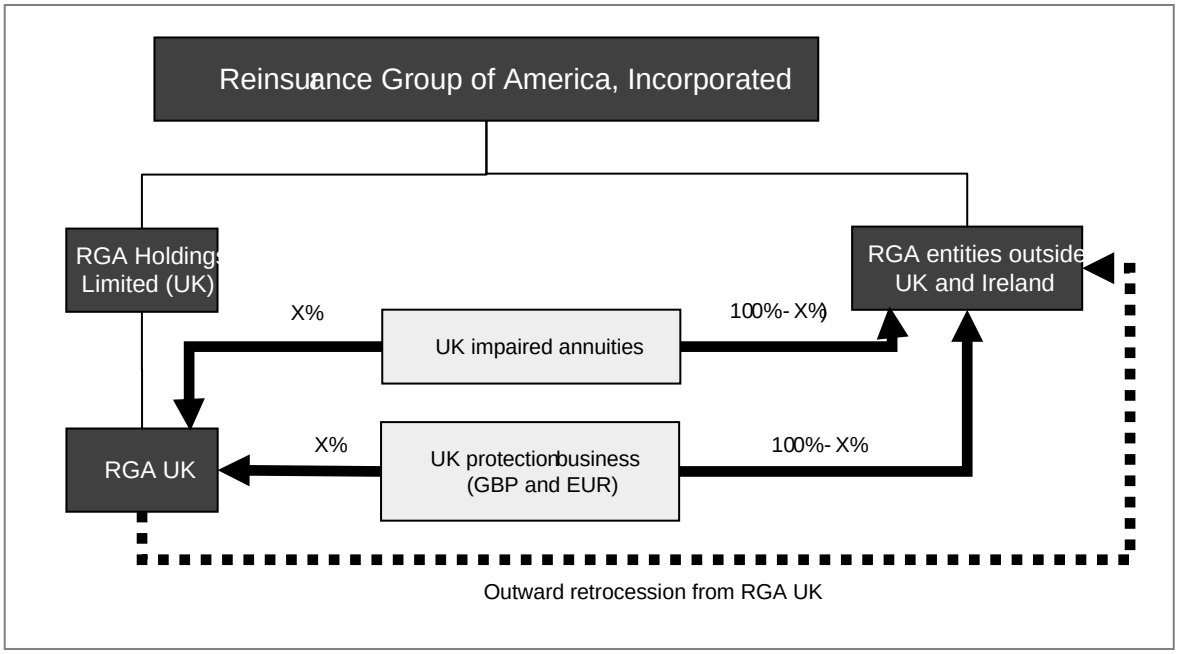


Diagram 3.1.3. Irish and UK treaties written before 1 July 2010, and two UK impaired annuity treaties



Notes: The value of X in the co-reinsurance arrangements vary by treaty but is commonly 10%

Although not shown on the diagram above, some of the outwards retrocession from RGA UK is to non-RGA reinsurance companies.

3.1.4 Business profile

RGA UK currently has in force 59 reinsurance treaties for protection business and two reinsurance treaties for impaired annuity business. Of these, 49 treaties are currently open to new business.

In terms of the relative significance of the main types of business written in RGA UK, individual life protection business providing life and critical illness cover represents over 99% of total liabilities. The rest of the business relates to group life business and impaired annuity business.

3.1.5 Assets

- Annuity business on standard (ie non-impaired) lives written by UK insurance companies on a bulk or group basis. These are commonly staff pension schemes of corporate organisations. These are actually annuity "swap" treaties, where the cedant reinsures the longevity risk of its bulk annuity business through a cashflow swap arrangement. Under such arrangements, the cedant makes payments to the reinsurer based on predetermined assumptions set out in the treaty and receives payments from the reinsurer based on the actual mortality experience of its bulk annuity business in return. In this way it is the reinsurer who actually bears the longevity risk.

Non-life reinsurance business

- Non-guaranteed, yearly renewable business covering health, disability and personal accident risks. This business is mainly from insurance companies in France, with lesser portions coming from India, East Asia and other European countries.
- Long term care business (which is designed to provide care benefits in old age) written by insurance companies in France.

The in-force business of RGA IRE includes a number of cedants who became clients of RGA IRE following its takeover of a block of business from XL Re on 1 January 2009. This business is long term care business (ie to provide nursing benefits in old age) written in France which now resides in the French branch of RGA IRE. My understanding is that this XL Re business was acquired by RGA IRE as a result of a novation in RGA IRE's favour, as opposed to an insurance business transfer. As such, there are no additional considerations in relation to this business as far as the current proposed transfer is concerned.

It should be noted that the non-life reinsurance business referred to above is health, disability and long term care type business. It is thus closer in nature to life business than to non-life reinsurance business covering motor, marine and aviation etc.

RGA IRE has also written a small amount of business on a facultative basis.

The above summary of RGA IRE's business indicates that RGA IRE underwrites a range of different types of reinsurance business. However, I do not believe that the nature of any of the business written is sufficiently different for the relevant policyholders to be regarded as a distinct sub-group for the purposes of my analysis of the proposed transfer. For the avoidance of doubt, this conclusion encompasses the inclusion of the non-life reinsurance business with the single RGA IRE group since, as noted above, the actual non-life business in question is closer in nature to life business than to motor, marine and aviation etc.

3.2.3 Business structure

RGA IRE writes the business described in section 3.2.2 above. In addition, from 1 July 2010, all new reinsurance treaties for UK protection business written into RGA IRE(UK), ie the UK branch of the Irish company. All business written in RGA IRE from other European insurance companies written into the relevant European branches of RGA IRE.

RGA IRE (UK) currently retrocedes a significant proportion of its protection business to overseas RGA subsidiri [illegible]

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In terms of the relative significance of the main types of business written in RGA IRE measured by total liabilities, approximately 48% are guaranteed premium treaties, 51% are non-guaranteed premium treaties,

For life reinsurance companies in Ireland, it is allowable to set up a deferred acquisition cost asset within the regulatory balance sheet. This is, in effect, a negative liability, as shown in the table above.

The vast majority of RGA IRE's retrocessions are intra-group, and there is only a small amount of liabilities retroceded external to the RGA group.

The intra-group retrocession is to other RGA reinsurance subsidiaries, but it should be noted that there is no retrocession to RGA UK.

3.2.5 Assets

RGA IRE aims to match its liabilities by duration and currency and invests in corporate bonds with a minimum credit rating of BB and cash only. The company has no exposure to equity, property or derivatives.

3.3 Rationale for the Scheme

Although not a direct consideration for me as Independent Expert, it is nevertheless relevant for me to be aware of the rationale for the Scheme.

As explained previously, most of RGA UK's reinsurance business has (prior to 1 July 2010) been written on a co-reinsurance basis with an overseas RGA subsidiary. Since 1 July 2010, all new reinsurance treaties for protection business have been written into RGA IRE(UK). Although RGA UK continues to receive new business on the co-reinsurance basis for all existing treaties still open to new business, RGA UK's business is expected to decline over the long term, and the fixed overhead costs of maintaining a separate entity with a declining block of business are likely to become onerous.

Further, the introduction of Solvency II will bring fundamental changes to the capital requirements, corporate governance and risk management of insurance and reinsurance companies operating in the EU. Each entity within a group is required to be able to demonstrate a sophisticated risk management framework that is fully integrated

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4 The Scheme in practice

4.1 Overview of the Scheme

The Scheme itself is a straightforward one, and provides for the entire assets and liabilities of RGA UK to be transferred to RGA IRE(UK).

As is common practice, the Scheme provides for certain policies which cannot be transferred immediately to be 100% reinsured to RGA IRE(UK) pending subsequent transfer (when the relevant approval is received). These are known as Excluded Policies, and there is an Excluded Policies Reinsurance Agreement. In practice, however, management of RGA UK do not expect there to be any Excluded Policies.

Although the wording of the Scheme is straightforward, and refers the transfer of the policies in question using normal direct insurance terminology, I have received confirmation that the wording of the treaty will, from a legal perspective, ensure that each of the following aspects of RGA UK's business will be transferred to RGA IRE:

- the inwards reinsurance treaties which RGA UK has in force with its clients;
- the outwards retrocessions between RGA UK and other RGA subsidiaries;
- the outwards retrocessions between RGA UK and non-RGA organisations.

As noted in sections 2.3, 3.1.2, and 3.2.2 above, the two groups of policyholders that I need to consider in my analysis of the affects of the Scheme are:

- the transferring policyholders of RGA UK;
- the existing policyholders of RGA IRE.

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5 Financial position before and after implementation of the Scheme

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*** * The introduction of the EU Directive on reinsurance in 2005 resulted in the amendment of the basis for determining the Pillar 1 capital requirements for pure life reinsurance companies (such as RGA UK and RGA IRE) to be based on the approach adopted for non-life business.

***** Non life business in RGA IRE as detailed in Section 3.2.2 consists of long-term care, health, disability and personal accidents insurance only.

The changes shown in the table above are detailed below. The numbering corresponds to the lines in the above table.

(1)/(2) The admissible assets will increase by the value of assets transferred from RGA UK.

(3) Total long-term admissible assets will change as a result of changes in (1) and (2).

(4) The gross mathematical reserves will increase in respect of the business transferred in from RGA UK.

(5)/(6) The amount of outwards insurance will increase corresponding to the business transferred in from RGA UK.

(7) It should be noted that RCR is a capital requirement in the UK. In Ireland this is included in the balance sheet as a liability.

(8) The net mathematical reserves will change as a result of changes to (4), (5) and (6) and (7)

(9) Other liabilities are increased by the amount of liabilities transferred from RGA UK.

(10) Shareholders liabilities are increased by the amount of liabilities transferred from RGA UK.

(15) The required solvency margin for life business has increased as a result of the business transferred in from RGA UK. There may be some benefits in due course on carrying out a single calculation (as opposed to adding the two separate calculations) but these have been ignored.

(16) The required solvency for the non life business will not change as there is no such business being transferred from RGA UK.

It should be noted that there are possibly some minor second order effects which have not been allowed for in the above table. Having discussed with the Signing Actuary of RGA IRE, re-alignment of margins of prudence is expected to be made on the transferred impaired annuity longevity assumptions to be consistent with the margins currently used by RGA IRE. However, these are not expected to have a material impact.

As the table above shows, RGA IRE has on its books a relatively small amount of non-life business. Although technically non-life business, this business comprises health, disability, personal accident, and long term care, which is more akin to life business than to motor, marine and aviation types of non-life business. I have however discussed this aspect with a senior KPMG colleague who is expert in the field of non-life insurance, and

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6 Effect on policyholders

6.1 Introduction

Having set out in the previous sections of this report the relevant financial effects of the Scheme, this section considers the effect on policyholders from both these viewpoints and

Several aspects of TCF have already been covered in preceding sections, but for the avoidance of doubt, these are included below. Each is relevant to the transferring policyholders of RGA UK.

6.3.1 Reinsurance treaty terms and conditions

There will be no change to any treaty terms and conditions of the transferred business

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7 Other risk considerations

7.1 Credit risk

As the analyses in section 5 above have shown, both RGA UK and RGA IRE have material deductions from their gross liabili in respect of outwardetrocessions, both intra-group and (in 3.16 621.84 97s(l)-5(y)28 Tm ( )Tj ET Q BT /TT4hfiK and Ri

the group. This acts to spread and diversify risk. It is also relevant to note that the policyholders of RGA UK and RGA IRE are, in the main knowledgeable direct writing insurance companies who are likely to aware that reinsurance groups such as RGA retrocede liabilities internationally.

It is expected that the legal arrangements to implement the effective transfer of the protection arrangements referred to above will be in place by the time of my supplementary report, and I will confirm whether this has in fact taken place within my supplementary report.

7.2 Operational risk

When a transfer of long term business takes place, there is scope for operational risks to occur and for example administrative errors to arise. The scope for such errors is greatest when the operation of complex processes or IT systems is moved from one group of people to another. An example would be unit pricing process for linked business. For reinsurance business, a key concern of cedants would be to ensure that the premiums and claims accounting under each treaty continues to be carried out accurately by the reinsurer.

In the case of this transfer, the processes and IT systems under which the RGA UK treaty premium and claims accounting will be carried out will remain in RGA's London offices and will continue to be operated by the same people.

It is further the case that the operation of reinsurance treaties does not (unlike for example unit pricing) take place in real time, and the correction or errors is normally straightforward.

I can therefore conclude that I see no material change in the ongoing position as regards operational risk, and that the potential for operational risk to occur at the point of transfer and cause a material problem for cedants is limited.

7.3 Legal risk

In considering the issue of legal risks, I have relied on the fact that RGA UK and RGA IRE have followed the advice of their legal advisers and Counsel in finalising the legal agreements in relation to this transfer, both in the UK and in Ireland.

I understand RGA UK's inwards reinsurance treaties and outwards retrocessional
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same risk based assessment approach will be used across the EU and thus the finalisation of the initial regime and any ongoing changes will have the same effect whether the transfer proceeds or whether RGA UK and RGA IRE remain separate.

There is the risk that the implementation of Solvency II is delayed, and that during the delay period the UK and Irish regimes for regulating reinsurance companies diverges. However, it must be acknowledged that there is scope for different regulatory approaches to apply, and that the CBI is an experienced regulator of reinsurance companies. See also section 7.6 below.

In the event of a regulatory risk materialising, often the outcome is that more shareholder capital would be required in the companies. Clearly, this may not always be the case, but in most cases regulatory standards and changes to them have a certain impact on the capital required. As is the case with most large insurance and reinsurance groups, the main source of additional capital is from within the group. Although there can be no guarantee of future capital being made available, the desire to avoid reputational risks arising does provide a strong incentive for groups to provide the additional capital to their operating subsidiaries where necessary. Thus, in most circumstances, regulatory risk is normally more of a concern for shareholders, as opposed to being a direct risk for policyholders. Further, as RGA UK and RGA IRE are similar companies in their nature, any change is likely to affect both companies similarly, and since both companies are part of the same group, the availability of additional shareholder capital will be similar before and after the transfer.

7.5 Tax risk

My understanding is that the relevant tax clearances have been or are expected to be obtained and in particular, that no stamp duty will crystallise from the transfer of assets from RGA UK to RGA IRE. Although corporate tax rates are currently lower in Ireland than in the UK, my understanding is that the profits of RGA IRE(UK) (ie the UK branch) will be taxed under the UK tax regime.

7.6 Change of regulator

Following the transfer, the Transferred Business would no longer be regulated by the FSA and would be regulated by the CBI.

As noted above, the current Pillar 1 regimes are similar as between the UK and Ireland. There is however a difference in how actuarial advice is formulated between the UK and Ireland as far as reinsurance companies are concerned. In the UK, RGA UK is required to appoint an Actuarial Function Holder to advise the Board of Directors on the determination of the Pillar 1 liabilities in line with the relevant requirements, with the Board being responsible for the final decisions. In Ireland, RGA IRE is required to appoint a Signing Actuary, who certifies to the CBI that the Pillar 1 liabilities have been

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Appendix 2: Copy of letter received from Hogan Lovells

See following pages.

and to any matters not disclosed to us, our opinion as regards the enforceability and effect of the Deed Rolls is set out in Appendix 1 to this opinion.

QUALIFICATIONS

5. This opinion is subject to the qualifications stated below:

5.1 The expression "enforceable" means that the obligations of BCA [illegible] and BCA Shareholders [illegible]

5.3 Although the choice of English law to govern the Deed Polls may be recognised and upheld by an English Court, that choice may be overridden by mandatory rules of (i) the forum in which a dispute is adjudicated or (ii) the place of performance of contractual obligations. The application of English law may also be refused to the extent that it is manifestly incompatible with the public policy of the forum and is subject in certain circumstances to provisions of other laws which are [illegible]

9. Save as provided below, this opinion may not be disclosed or quoted to

than the addressee without our prior written consent in each case. Subject to paragraph 8 we consent to a copy of this opinion being included in or annexed to Mr John Jenkins'

report to the Court in his capacity as Independent Expert in connection with the Part VII Transfer, on a non-reliance basis.

10. This opinion is provided on the basis that to the extent permitted by law, our liability

Will the Deed Polls operate to preserve the effect of the Letters of Guarantee post transfer

in relation to the Guaranteed Contracts?

APPENDIX 2

In this opinion, we have assumed that:

(a) All documents provided to us as originals are authentic and complete and all signatures and seals are genuine. All documents provided to us as copies