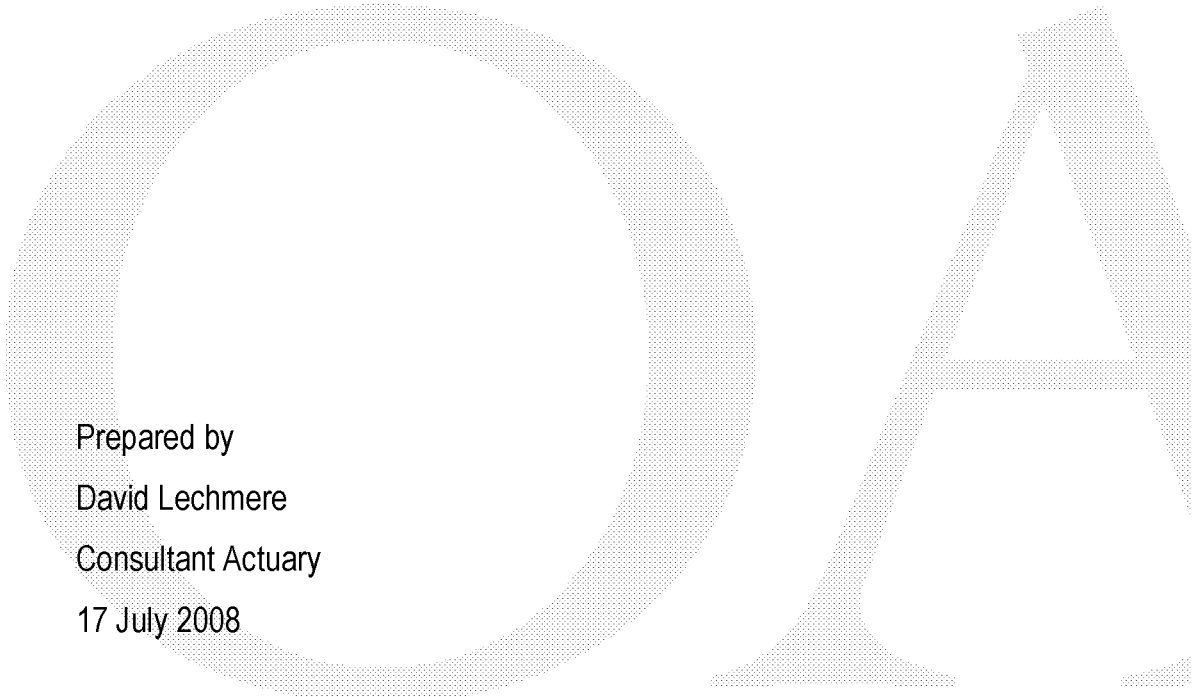


OAC

**Independent Report
on the proposed transfer
of long term insurance business from
Domestic & General Life Assurance Company Limited
to Forester Life Limited**



Prepared by
David Lechmere
Consultant Actuary
17 July 2008

relationship driven consulting™

Contents

1. Introduction	1
2. Information on which the report is based	3
3. Summary of the Scheme	5
4. The Effect of the Scheme: Security	8
5. The Effect of the Scheme – Benefit Expectations	10
6. Conclusion	13
Appendix 1	14
Appendix 2	15
Appendix 3	16
Appendix 4	17

1. Introduction

- 1.1. I have been instructed by Forester Life Limited (FLL) to report in the capacity of Independent Expert pursuant to Section 109(1) of the Financial Services and Markets Act (FSMA) on the proposed transfer of the whole of the long term insurance business of Domestic & General Life Assurance Company Limited (DGLA) to FLL.
- 1.2. The Financial Services Authority (FSA), having considered the skills needed to make a proper report, have approved my appointment as independent expert. This report has been prepared in a form which complies with the Rules and Guidance made by the FSA.
- 1.3. I am a Fellow of the Institute of Actuaries and I hold a current practising certificate (including with profits).
- 1.4. I have no financial interest in, nor have I previously advised in a professional capacity, FLL, DGLA, or any company with the same ultimate parent.
- 1.5. I understand that it is the intention of FLL and DGLA to make an application to the High Court under Section 107 of the FSMA for an Order under Section 111 sanctioning the Scheme and making provision under Section 112 for its implementation.
- 1.6. I understand that as an Independent Expert appointed pursuant to Section 109(1) of FSMA my duty is to the Court and that duty overrides any obligation to the party who has engaged me.
- 1.7. I have been engaged by Forester Life Limited, who have contracted with my employer, OAC Actuaries and Consultants plc, for me to fill this role. I understand that my fees will be paid out of the closure reserve which has been set aside by DGLA to fund the transfer.
- 1.8. As the Independent Expert I must consider the consequences and potential consequences of the transfer. I have not considered any alternative proposals. In particular I must take into account the security and benefit expectations of the current long term policyholders of FLL and DGLA if the transfer takes place. In considering the benefit expectations I must consider the prospects for amendments to policy administration and investment management charges under those classes of DGLA investment contracts which allow for this. I must also take into account the prospects for amendments to premium rates scales under those classes of DGLA permanent health insurance contracts which allow for this.
- 1.9. I also need to consider whether there should be any formal undertakings other than those given in or pursuant to the Scheme and Transfer Agreement between FLL and DGLA as a

condition of the sanction by the Court of the Scheme and, if so, the form of those undertakings.

1.10. In preparing this report I have had full access to documents held by FLL and DGLA. I have been provided with all the information which I have requested and had all my questions answered. In addition I have had access to, and discussions with, the management teams of the two firms and their professional advisers.

1.11. I have relied on the accuracy of the information which has been supplied to me but have not verified it. However I am satisfied with the reasonableness of the information from my own experience of life assurance business.

1.12. The following terms have the same meaning in this report as they do in the Scheme:

Effective Date

Transferring Assets

Transferring Policies

Mathematical Reserves

Transferring Liabilities

2. Information on which the report is based

- 2.1. I have been provided with copies of the following in respect of FLL
- The Memorandum and Articles of Association
 - The Annual report and Accounts as at 31 December 2007
 - The Annual Financial Services Authority (FSA) Insurance returns as at 31 December 2007
 - Reports by the Actuarial Function Holder to the Directors
- 2.2. FLL was incorporated in December 1994 and authorised by the Department of Trade and Industry to carry on insurance business on 14 September 1995. The ultimate holding company is the Independent Order of Foresters, a Canadian registered fraternal benefits society that operates in the United States, Canada and the United Kingdom
- 2.3. FLL transacts only long term insurance business. It is open for new non-profit and unit-linked business. It has a with-profits fund which has been closed to new business since 1995. The assets attributable to the with-profits policyholders are ring-fenced in a separate sub fund and, except in very adverse circumstances, are only available for the benefit of the with-profits policyholders.
- 2.4. The business comprises individual savings accounts, savings and investment plans, child trust funds, personal pensions and various protection plans. A summary of the FLL business in force, gross of reinsurance, as at 31st December 2007, is shown in Appendix 1.
- 2.5. I have been provided with the following in respect of DGLA.
- The Memorandum and Articles of Association
 - The Annual report and Accounts as at 31 March 2007
 - The Annual FSA Insurance returns as at 31 March 2007
 - Reports by the Actuarial Function Holder to the Directors
- 2.6. DGLA transacts only long term insurance business. This includes life assurance, pensions and long term sickness business. There is now no with-profits business within the firm. Although DGLA is authorised to effect new business it only writes such business arising from rights or options under existing contracts.
- 2.7. DGLA was incorporated on 20 May 1993 for the sole purpose of buying and running closed UK life funds. Its first acquisition was the liabilities of the closed fund of the Western

Australian Assurance Company. Elements of the closed fund of Consolidated Life were transferred following sanction by the High Court on 17 December 1996. The closed fund of Wessex Life Assurance Company Limited (Wessex) was transferred following sanction on 22nd June 1998. These three transfers all took place under the provisions of Schedule 2C of the Insurance Companies Act 1982. The closed fund of All Counties Insurance Company was transferred following sanction by the High Court on 4th March 2004 in accordance with the provisions of Section 107 of FSMA.

- 2.8. DGLA has never effected any direct new business, other than as set out paragraph 2.9. It has only acquired new business as a result of transfers and its main operation is to receive closed funds. DGLA is 100% owned by the Domestic & General Group which is owned by Advent International. Advent International is a private equity group specialising in buyouts. Advent acquired 100% of the share capital of the Domestic & General Group in late 2007. There is a sister general insurance company within the Domestic & General group which otherwise has no financial connection with DGLA.
- 2.9. DGLA is closed to new business except for the options under existing contracts, which are not material. With effect from 1st July 2003, the remaining with-profits policyholders were converted to non-profit policyholders.
- 2.10. A description of the types of contract written by DGLA is shown in Appendix 2. A summary of the long term insurance business and assets of DGLA as at 31 March 2008 is set out in Appendix 3. Certain features of the portfolio are noted below.

Options

- 2.11. Within the DGLA portfolio there are options available to the policyholder under the convertible term assurances and some of the unit linked policies. Historically these options have rarely been exercised and are not considered onerous.

Policy Fees

- 2.12. The policy fees charged by DGLA are reviewed on an ad hoc basis having been increased in 1997 and again in 2003 and 2004. There have been no further increases in policy fee.

Reviewable Premiums

- 2.13. The permanent health insurance contracts (Cancer Cash Plan) has reviewable premiums. These premiums may be changed at any time on giving three months' notice. The premiums are reviewed periodically and the last increase was recommended in March 2004, there has been no further premium increase recommended, although the Actuarial Function Holder's report for the year ending 31 March 2007 noted that the experience was worsening.

3. Summary of the Scheme

Effect of the Transfer

- 3.1. I have been provided with a copy of the Scheme in respect of the proposed transfer together with a copy of the Business Transfer Agreement between FLL and DGLA. The main purpose of the Scheme is to provide for the transfer to FLL of the whole of the long term insurance business of DGLA so that it is merged with the long term insurance business of FLL.
- 3.2. Under the Scheme, the long term business of DGLA will transfer to the long term fund of FLL at the Effective Date.
- 3.3. The Transferring Liabilities of DGLA's long term business fund will be transferred into the Other Business Fund of FLL.
- 3.4. Assets sufficient to meet the Transferring Liabilities of DGLA will be transferred. The reserves as calculated will exclude the closure reserve which is established to cover the costs of any eventual transfer of the business. The amount of the closure reserve as at 31st March 2008 is £300,000.
- 3.5. The Mathematical Reserves required to meet the Transferring Liabilities will be determined by the Actuarial Function Holder of FLL at the Effective Date, calculated using the same bases and assumptions as shown in the FSA Insurance Return of DGLA as at 31st March 2008. (or on such other basis as shall be mutually agreed by the respective Actuarial Function Holders). The Transferring Liabilities include the reserves for maintenance expenses, and miscellaneous reserves, but exclude the reserve of £300,000 set aside in anticipation of the costs of the business transfer.
- 3.6. The business in the Other Business Fund will comprise business from the existing Foresters Other Business Fund and the DGLA business transferred on the "Effective Date".
- 3.7. I understand it is intended that DGLA will be dissolved once the transfer has been completed and the proposed reduction of capital given effect.

Policyholders Resident Overseas

- 3.8. There are a few individual policyholders whose policies were effected whilst resident in Guernsey, Jersey, Isle of Man, Germany, Kenya and Hong Kong. FLL are authorised to provide cross-border services in Germany. Legal opinion has been obtained to the effect that FLL will not need to be authorised in the other territories, other than Guernsey and that the relevant policies may be transferred under the UK Scheme. The policyholders in Guernsey

will be contacted individually and asked to sign a novation agreement which will transfer their policies from DGLA to FLL.

Business to be Transferred

- 3.9. FLL will create and maintain internal linked funds identical to those maintained by DGLA, using such of the Transferring Assets as were in the internal linked funds within DGLA immediately prior to the Effective Date. FLL intend that the unit linked policies transferred from DGLA will remain in the same internal linked funds with the same pricing procedures, parameters and charging structures. For each Unit Linked Policy the value of the units immediately following the Effective Date will be equal to the value immediately before the Effective Date. FLL will have the right to merge and/or close linked funds in order to maintain efficient administration of the unit linked business.
- 3.10. All premiums and other sums payable to DGLA in respect of the Transferring Policies will, from the Effective Date, become payable to FLL.

Reinsurance Treaties

- 3.11. It is proposed to transfer, by order of the Court, the reinsurance agreements currently held between DGLA and Swiss Re Life and Health (UK) Limited (the reinsurer) in respect of the Transferring Policies across to FLL at the Effective Time with no changes in the terms and conditions.

Taxation

- 3.12. All tax balances will transfer to FLL.

Circularisation of policyholders

- 3.13. DGLA's long term insurance policyholders are being individually circulated with details of the transfer, as far as possible. Newspaper advertising will also be used to inform policyholders, and other interested parties.

Costs of the Scheme

- 3.14. All direct costs of the Scheme, up to £300,000 including the costs of actuaries, accountants, lawyers, costs of notifying policyholders and other interested parties of the Scheme (including advertising) and court fees will be met by the long term business fund of DGLA. Any direct costs in excess of £300,000 will be split equally between the DGLA and FLL with the DGLA share met from the DGLA shareholder fund.
- 3.15. The rights under the contracts written by DGLA will not be changed as a result of the transfer
- 3.16. It is proposed that the transfer will take place on 24 October 2008.

- 3.17. The amount to be transferred will be a sum equal to the mathematical reserves for the policies in force in DGLA at the date of transfer. The reserves will be calculated on the basis used for the statutory valuation at 31 March 2008 (or on such other basis as shall be mutually agreed by the respective actuarial function holders). The reserves as defined include the reserves for maintenance expenses, and miscellaneous reserves, but exclude the reserve of £300,000 set aside in anticipation of the costs of the business transfer.

Solvency Capital

- 3.18. The calculation of the amount of Transferring Assets contains no provision for meeting the statutory requirements with regard to capital resources. This means that the necessary regulatory capital requirements for the Transferring Policies will have to be funded out of the existing capital resources of FLL

4. The Effect of the Scheme: Security

- 4.1. In this section I consider the Scheme as it affects the current policyholders of DGLA and FLL, with particular regard to their security. The effect on benefit expectations and other contractual conditions is considered in Section 5.
- 4.2. The current security of the policyholders relies on the margins which exist in the reserving bases adopted, in the capital required by FSA Rules, and in the free reserves or shareholders' capital of DGLA and FLL.
- 4.3. Following normal practice DGLA and FLL have set up reserves using prudent assumptions. I am satisfied with the methods and assumptions adopted by DGLA and FLL in calculating the mathematical reserves.
- 4.4. In addition to mathematical reserves calculated on a prudent basis every insurer that writes long term business is required to calculate and hold a long term insurance capital requirement (LTICR). This is an amount calculated in proportion to the mathematical reserves and sums at risk and is intended as protection against adverse experience or other adverse circumstances.
- 4.5. Insurance firms are also required to test the resilience of their portfolio to changes in the value of the assets backing the mathematical reserves, and to hold additional capital if necessary. This is known as the resilience capital requirement (RCR) and is in addition to the LTICR.
- 4.6. For insurance companies such as DGLA the total Capital Resources Requirement (CRR) is equal to the LTICR plus the RCR. However it is also subject to a fixed minimum amount, the Base Capital Resources Requirement (BCCR) regardless of the size of the insurer.
- 4.7. The very small size of the DGLA portfolio means that the BCCR applies.
- 4.8. At 31 March 2008 the amount in the long term business fund of DGLA was just sufficient to cover the policyholders' liabilities but the LTICR, and any RCR had to be covered by shareholder assets held outside the long term business fund.
- 4.9. This means that the security of the long term business policyholders of DGLA was sufficient, but the amount of capital required in relation to the mathematical reserves was very considerable. At 31 March 2007 DGLA was technically in breach of the BCCR because the fund had declined but the capital requirements had not. The situation was remedied by a loan from the parent company.
- 4.10. FLL is subject to similar requirements, however FLL is strongly capitalised. On the statutory solvency basis the available assets cover the CRR five times over.

