

FORESTER HOLDINGS (EUROPE) LIMITED

(Registered in England & Wales, no. 3013082)

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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Forester Holdings (Europe) Limited

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Forester Holdings (Europe) Limited

BOARD OF DIRECTORS

L J Haight* (Chair)

E T Allison

B E Bloom*

M Christophers*

J Cowan*

J F Gillespie

G S Mohacsi*

P J Robinson*

**Non-executive*

Company Secretary

M A Edwards

Principal Bankers

National Westminster Bank Plc

City of London Office

21 Lombard Street

London EC2 2BP

Auditor

KPMG Audit Plc

8 Salisbury Square

London EC4Y 8BB

Registered Office

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BR2 9BF

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Forester Holdings (Europe) Limited

Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 December 2008.

Principal activity

Forester Holdings (Europe) Limited ("the company") commenced trading on 1 October 1995, its principal activity being to act as the holding company for the business interests of The Independent Order of Foresters carried out in the United Kingdom. These interests include the transaction of long-term insurance business, general insurance business and the provision of related administration and marketing services. On the above date, the existing long-term business of the UK Branch of The Independent Order of Foresters was transferred to Forester Life Limited (a wholly owned subsidiary of the company). Following a strategic review, the company completed the sale of its entire interest in Forester Health Limited, a wholly owned subsidiary company, on 2 January 2008. The group's activity is now focussed on providing savings, investment, pensions, protection, including critical illness, and membership services to its customers.

Parent Company

The company is a wholly owned subsidiary of the UK Branch of The Independent Order of Foresters ("Foresters"), a fraternal benefit society, incorporated in Canada with limited liability.

Review of Business and future developments

The group has traded very successfully in a highly competitive and poor market throughout the year, administering a range of unit-linked savings, pensions and protection products, in addition to a long established book of with profits and universal life policies. A revised suite of stakeholder products was introduced in April 2005, including Stocks & Shares Individual Savings Accounts (ISA's) sold through the basic advice regime, which has been appreciated by new and existing customers. The enhanced Protection product range launched in 2007 continued to sell well in 2008.

Life sales for the year, measured by the accepted method of counting single premiums as 10% of amount received, were 99% of target and were 11% higher than 2007. Sales were completed on the company's award-winning Point of Sale system which includes an automated decision tree analysis providing basic advice for Savings and Investment products and a protection needs analysis encompassing Demands and Needs statements. In addition, the company continued to be fully involved in the administration of Revenue Allocated Child Trust Funds, relating to those accounts where the child's parent or guardian had not invested the voucher provided within the specified time frame. Sales of these allocated accounts continued at 2007 levels.

Within the context of the global financial turmoil of 2008, the life company's investments delivered better-than-expected returns. This was principally due to asset allocation decisions, but also to fixed interest returns that exceeded benchmarks. At the year-end, over 40% over the company's assets were held in gilt-edged stock, with a further 16% in other fixed interest. Of these securities, 95% were rated AAA, and the remainder AA. The group had no exposure to derivatives, mortgage-backed securities or other forms of securitised assets. The group has a long-standing policy of only holding shares in companies that are within the FTSE 350 Share Index.

According to Citiwire as at 31 December 2008, the performance of Forester Life's Balanced Fund ranked above the mean of the Cautious Managed sector over all periods from 3 months to 10 years.

Premium income was 8% higher than 2007 but partial and total surrenders were substantially greater than 2007 due to the erosion of customer confidence in equity markets generally, high deposit account interest

Forester Holdings (Europe) Limited

Report of the Directors (continued)

Review of Business and future developments (continued)

rates and the "credit crunch". The group made a loss in the year, partly as a result of the impact of these challenging market conditions on its shareholder portfolios and partly due to new business strain.

Notwithstanding this loss,

- i) the group has maintained its investment policy for equities and thus will be well positioned for the recovery of this market when it arrives and
- ii) sales during the year continued to be profitable with the costs of writing and issuing new business being exceeded by the acquisition expense margins contained in the products sold

The group has wholeheartedly adopted the regulator's programme to imbue a culture of "Treating Customers Fairly" within its normal operating processes. A new processing system is being developed to improve the services provided to our existing customers and to support the expected growth in new business volumes.

The group intends to grow organically via its professional direct sales force, expanding when and where feasible. During the year the life company acquired the life business of Domestic & General Life Assurance Limited, comprising approximately 1,100 policies and £3,000,000 assets. The acquisition provided practical and useful experience of the processes involved in such transfers and further suitable merger/acquisition opportunities will be sought. In preparation for funding these opportunities the issued share capital of the life company was increased from £5,000,000 to £12,500,000 during the year by additional investment by the parent company.

The financial strength of the life company, which provides reassurance for its policyholders, employees and shareholders, has been maintained throughout this turbulent economic period without unduly constraining the group's future business strategy as evidenced by the planned investment in a new policy processing system and the provision of funding in preparation for growth by further suitable acquisitions or mergers.

Risks and uncertainties

The principal risks facing the group are as follows:

Life business

- exposure to catastrophic mortality, morbidity and experience factors such as persistency, longevity and unforeseen expenses;
- potential loss of sales or increased new business acquisition costs, following future legal or regulatory changes. For example the basic advice regime being replaced by a new, but more onerous, guided sales regime;
- reliance on a single distribution channel
- possible irrecoverable losses following future changes in regulatory interpretation which have a retrospective effect;
- inaccurate pricing of risk when setting premium rates for non-linked products;
- materially adverse movements in the value of non-linked financial investments;
- operational risks arising from inadequate or failed internal processes, people or systems, or from external events.

Risks are monitored closely. The group is able to mitigate its risks by varying its distributions to policyholders, reassuring significant risks, maintaining a liquid investment portfolio, operating systems of internal control and holding sufficient capital to absorb unexpected adverse events.

Forester Holdings (Europe) Limited

Report of the Directors (continued)

Risks and uncertainties (continued)

The directors are satisfied that the principal risks are mitigated or are capable of mitigation to an acceptable level.

Investment Property

The group has no investment property.

Fixed Assets

Movements in fixed assets are shown in note 17 to the financial statements.

FSA Pensions and Endowment Mortgages Reviews

There were no cases outstanding under the Personal Pensions Review at 31 December 2008.

Note 26 of the financial statements shows the movement in the provision for the compensation costs in respect of possible mis-selling of endowment mortgages in the late 1990's.

Results and dividends

The group loss for the year after taxation amounted to £13,385,000 (2007 profit: £2,452,000). Total recognised gains and losses in the year, after accounting for the pension deficit, were £13,496,000- loss (2007 - £2,593,000- gain).

An interim dividend of £1,900,000 was declared during the year (2007: £1,600,000).

Directors

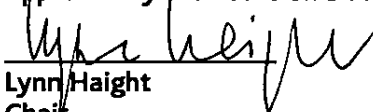
The directors of the company during the year are listed on page 3 of these financial statements.

None of the directors had any disclosable interest in the ordinary shares of the company.

According to the Register of Directors' interests no rights to subscribe for shares in the company were granted to any of the directors or their immediate families, or exercised by them, during the year.

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and that each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Approved by the Board on 5 March 2009 and signed on its behalf.


Lynn Haight
Chair



Forester Holdings (Europe) Limited

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements.

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards.

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company, and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as is reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Forester Holdings (Europe) Limited

We have audited the group and parent company financial statements (the "financial statements") of Forester Holdings (Europe) Ltd for the year ended 31 December 2008, which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

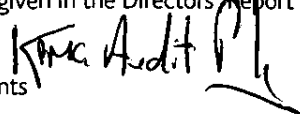
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2008 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
5 March 2009



8 Salisbury Square
London EC4Y 8BB

Forester Holdings (Europe) Limited

Consolidated profit and loss account - Technical account - general business For the year ended 31 December 2008

	<i>Notes</i>	2008 £000	2008 £000	2007 £000	2007 £000
Discontinued activities					
Earned premiums, net of reinsurance					
Gross premiums written	3		-		6,330
Change in the gross provision for unearned premiums			-		14
			-		6,344
Allocated investment return transferred from the non-technical account			-		393
			-		6,737
Claims incurred, net of reinsurance					
Claims paid:					
Gross amount				4,586	
Change in the provision for claims:					
Gross amount				(158)	
			-		4,428
Net operating expenses	6		-		821
Balance on the technical account - general business			-		1,488

Forester Holdings (Europe) Limited

Consolidated profit and loss account- Technical account- Long term business For the year ended 31 December 2008

	<i>Notes</i>	2008 £000	2008 £000	2007 £000	2007 £000
Earned premiums, net of reinsurance					
Gross premiums written	3	80,560		74,733	
Outward reinsurance premiums		<u>(56)</u>		<u>(54)</u>	
			80,504		74,679
Investment income	4		29,354		37,302
			<u>109,858</u>		<u>111,981</u>
Claims incurred, net of reinsurance					
Claims paid:					
Gross amount		50,718		39,243	
Reinsurers' share		<u>(206)</u>		<u>(20)</u>	
		50,512		39,223	
Change in the provision for claims:					
Gross amount	22	635		170	
Reinsurers' share		<u>(200)</u>		<u>-</u>	
		435		170	
			50,947		39,393
Change in other technical provisions, net of reinsurance					
Long term provision net of reinsurance					
Gross amount	22	(1,487)		(5,709)	
Reinsurers' share		<u>-</u>		<u>-</u>	
		(1,487)		(5,709)	
Other technical provisions, net of reinsurance	22	<u>16,591</u>		<u>53,178</u>	
			15,104		47,469
Net operating expenses	6		11,391		7,904
Investment expenses and charges	11		12,237		3,129
Unrealised losses on investments			67,748		12,363
Tax attributable to the long term business fund	10		(2,483)		(662)
Transfers to/ (from) the fund for future appropriations	21		(27,643)		1,657
Sub-total (balance on the technical account for long term business)			<u>(17,443)</u>		<u>728</u>

Forester Holdings (Europe) Limited

Consolidated profit and loss account - non-technical account For the year ended 31 December 2008

		2008 £000	2008 £000	2007 £000	2007 £000
	Notes				
Balance on the general business technical account			-		1,488
			-		1,488
Balance on the long term business technical account		(17,443)		728	
Tax (charge) credit attributable to the long term business technical account		(54)		(25)	
Pre - tax profit arising on long term business			(17,497)		703
Investment income	4	1,168		1,199	
Unrealised losses on investments		(937)		(563)	
Allocated investment return transferred to the general business technical account		-		(393)	
			231		243
Other income	5		1,815		2,076
Other charges	6		(1,387)		(1,686)
Losses on realisation of investments			(202)		-
Profit on disposal of subsidiary			4,156		-
(Loss)/profit on ordinary activities before taxation			(12,884)		2,824
Tax on loss/profit on ordinary activities	10		(501)		(372)
(Loss)/ profit for the financial year	19		(13,385)		2,452

Except for the profit on disposal of subsidiary, all income and expenditure relates to continuing activities. In accordance with the amendment to FRS3 published in June 1999, no note of historical cost profit has been prepared as the group's only material gains and losses on assets relate to the holding and disposal of investments.

Statement of Total Recognised Gains and Losses For the year ended 31 December 2008

		2008 £000	2007 £000
(Loss)/ Profit for the financial year		(13,385)	2,452
Actuarial (loss)/ profit on pension fund	9	(155)	271
Deferred tax on pension fund		44	(130)
Total recognised gains and losses since last annual report		(13,496)	2,593

Forester Holdings (Europe) Limited

Consolidated balance sheet as at 31 December 2008

	Notes	2008 £000	2007 £000
ASSETS			
Investments			
Interest in associated undertakings	13	25	25
Other financial investments	12	248,134	289,323
		<u>248,159</u>	<u>289,348</u>
Assets held to cover linked liabilities	15	197,260	179,127
Reinsurers' share of technical provisions			
Claims outstanding		200	-
Debtors- amounts falling due within 1 year			
Debtors arising out of direct insurance operations - policyholders		4,334	4,670
Other debtors	16	<u>2,279</u>	<u>803</u>
		<u>6,613</u>	<u>5,473</u>
Debtors- amounts falling due beyond 1 year		-	36
Other assets			
Tangible assets	17	166	247
Cash at bank and in hand		6,789	13,075
		<u>6,955</u>	<u>13,322</u>
Prepayments and accrued income			
Accrued interest and rent		2,402	2,611
Deferred acquisition costs- long term business		9,288	8,504
		<u>11,690</u>	<u>11,115</u>
Total assets		<u><u>470,877</u></u>	<u><u>498,421</u></u>

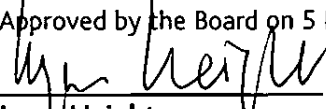
Forester Holdings (Europe) Limited

Consolidated balance sheet (continued)
as at 31 December 2008

	Notes	2008 £000	2007 £000
LIABILITIES			
Capital and reserves			
Called up share capital	18	20	20
Capital contribution	19	29,189	29,189
Capital reserve	19,20	-	1,564
Profit and loss account	19	12,385	26,217
Shareholder's funds attributable to equity interests		<u>41,594</u>	<u>56,990</u>
Fund for future appropriations	21	26,434	54,077
Technical provisions			
Provision for unearned premiums		-	89
Long term business provision	22	194,397	194,191
Claims outstanding	22	3,961	3,726
Total technical provisions		<u>198,358</u>	<u>198,006</u>
Technical provision for linked liabilities	22	197,260	179,127
Provisions for other risks and charges	26	288	2,583
Creditors (amounts falling due within one year)			
Creditors arising out of direct insurance operations		794	879
Creditors arising out of reinsurance operations		38	138
Amounts owed to credit institutions		725	847
Other creditors including taxation and social security	27	5,230	5,514
		<u>6,787</u>	<u>7,378</u>
Creditors (amounts falling due beyond one year)		53	66
Accruals and deferred income		103	148
Total liabilities before pension liability		<u>470,877</u>	<u>498,375</u>
Pension liability	9	-	46
Total liabilities after pension liability		<u>470,877</u>	<u>498,421</u>

Included in Shareholder's funds are reserves of £29,209,000
(2007: £43,691,000) which are not distributable.

Approved by the Board on 5 March 2009 and signed on its behalf

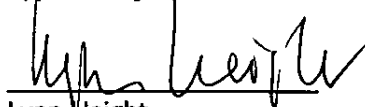

Lynn Haight

Forester Holdings (Europe) Limited

Parent company balance sheet as at 31 December 2008

	<i>Notes</i>	2008 £000	2007 £000
Assets			
Investments in group undertakings	13	13,150	8,133
Interest in associated undertakings	13	25	25
Other financial investments	14	3,580	-
		<u>16,755</u>	<u>8,158</u>
Current assets			
Debtors	16	2,655	1,522
Other assets			
Tangible assets	17	166	247
Cash at bank and in hand		1,098	4,891
		<u>1,264</u>	<u>5,138</u>
Prepayments and accrued income: interest		15	-
Total assets		<u>20,689</u>	<u>6,660</u>
Creditors (amounts falling due within one year)			
Other creditors including taxation and social security	27	5,031	4,285
Amounts owed to credit institutions		69	91
Current liabilities		<u>5,100</u>	<u>4,376</u>
Net current assets		<u>15,589</u>	<u>2,284</u>
Creditors (amounts falling due beyond one year)		53	66
Net assets before pension liability		<u>15,536</u>	<u>10,376</u>
Pension liability		-	(46)
Net assets after pension liability		<u>15,536</u>	<u>10,330</u>
Represented by:			
Capital and reserves			
Called up share capital	19	20	20
Capital contribution	19	5,000	5,000
Profit and loss account	19	10,516	5,310
Shareholder's funds attributable to equity interests		<u>15,536</u>	<u>10,330</u>

Approved by the board on 5 March 2009 and signed on its behalf


Lynn Haight

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (Forming part of the financial statements)

As at 31 December 2008

1. BASIS OF PREPARATION

The group financial statements, which consolidate the financial statements of the company and its wholly owned subsidiary undertakings, have been prepared in accordance with the provisions of Section 255A of, and Schedule 9A to, the Companies Act 1985. The balance sheet of the parent company is prepared in accordance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985. As permitted by Section 230 of the Companies Act 1985, no profit and loss account of the parent company is presented.

The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified to include the revaluation of investments, and comply with the Association of British Insurers' ("ABI") Statement of Recommended Practice on Accounting for Insurance Business ("SORP") issued in December 2006. No accounting policies have been changed on the adoption of the SORP.

The company has taken advantage of the partial exemption from FRS 8 ("Related party disclosures") with respect to disclosure of transactions with other group undertakings and of the exemption under FRS1 ("Cash flow statements") from the requirement to prepare a cash flow statement on the grounds that the parent company is a wholly owned subsidiary (see note 30).

2. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items, which are considered material to the group's financial statements. All accounting policies have been reviewed for appropriateness in accordance with FRS 18 ("Accounting policies").

Uncertainties and estimation techniques

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies, principally in respect of the long-term business provision, and the company uses standard estimation techniques to determine an appropriate level of provision.

Basis of accounting for insurance business

The group has adopted the "modified statutory solvency" basis of accounting for long term insurance business and the annual basis of accounting for general insurance business.

Premiums

Long-term business premiums are credited when they become due or, in the case of unit linked business, when the liability is recognised and exclude any taxes or duties levied with premiums. Reinsurance premiums are charged when they become payable.

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2008

2. ACCOUNTING POLICIES (continued)

Premiums (continued)

In respect of general business, written premiums, which exclude insurance premium tax, comprise premiums receivable during the year under contracts incepting during the year, together with adjustments arising in the financial year to such premiums receivable in respect of business written in previous financial years.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct business being reinsured.

Unearned premiums

In cases where premiums are received which relate to a future period of risk, then the relevant proportion is carried forward as provision for unearned premiums. The provision is calculated according to the number of months of unearned premium at the balance sheet date.

Outstanding claims-long term business

Long-term business claims reflect the cost of claims arising during the year, including policyholder bonuses allocated in anticipation of a bonus declaration. Death claims are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Surrenders are recorded on the earlier of the date when paid or when the policy ceases to be included within the long-term business provision. Claims paid and outstanding include the direct and indirect costs of settlement. Reinsurance recoveries are credited to match the relevant gross amounts.

Outstanding claims- general business

Full provision is made on an individual case basis for the estimated cost of claims notified but not settled by the balance sheet date after taking into account anticipated inflation and settlement trends together with related internal and external claims settlement expenses. A provision for general business claims incurred but not reported is established on a statistical basis based on claims experience during the year. Any differences between provisions and subsequent settlements are reflected in the general business technical account of later years.

Investment return (investment income, expenses and charges)

Investment income and expenses includes dividends, interest, rents, gains and losses on the realisation of investments and related expenses. Dividends are included as investment income on the date that shares become quoted ex-dividend. Interest, rents and expenses are included on an accruals basis. Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost.

All investment income, expenses and charges of the long-term business are included in the long-term business technical account. The group has decided it is not appropriate to allocate any of its return on investments from long-term business to the non-technical account.

General business investment return is stated in the non-technical account as required by the SORP and is then allocated to the technical account.

Other investment income, expenses and charges relating to the other group companies are reflected in the non-technical account.

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2008

2. ACCOUNTING POLICIES (continued)

Unrealised gains and losses on investments

Long-term business unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price or previous valuation if held at the previous reporting date. The movement in unrealised investment gains/losses includes an adjustment for previously recognised unrealised gains/losses disposed of in the accounting period.

Unrealised gains and losses are included in the long-term business technical account.

General business listed investments are stated at market bid value at close of business on the balance sheet date. Unrealised gains and losses are included in the non technical account in accordance with the SORP and are then allocated to the technical account

Investments – group

Investments are valued at their market bid value with the exception of non-linked long term business fixed income securities, which are shown at amortised cost as this basis more closely corresponds with the valuation of the related long term liabilities.

Investments consist of listed investments and deposits. Other than as identified immediately above, listed investments are included at fair value on the balance sheet date.

Investments – company

Investments in group undertakings are stated at cost less provisions for permanent diminution in value. Other financial investments are valued at fair value.

Goodwill

Goodwill arising on the purchase of group undertakings represents the difference between the fair value of the purchase consideration and the fair value of the business acquired. The capital reserve represents the excess of the net assets acquired over the purchase consideration. As this negative goodwill arose before 1 January 1998, in accordance with FRS 10, the group will not be restating this negative goodwill and amortising it over its useful economic life, but would release it to the profit and loss reserve in the event of disposal of the relevant business. Such an event occurred during 2008 as detailed in Note 20 to these financial statements. Any future goodwill arising will be capitalised and amortised in accordance with FRS 10.

Depreciation

Depreciation has been provided on a straight-line basis, calculated to write off the costs of the tangible fixed assets over their estimated useful lives. The following asset lives are used:

Furniture and equipment	3-5 years
Computer equipment	3 years
Leasehold improvements	The remaining life of the lease

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2008

2. ACCOUNTING POLICIES (continued)

Operating lease commitments

The rental costs relating to operating leases are charged to the profit and loss account on a straight-line basis over the life of the lease.

Deferred acquisition costs

For long-term business, acquisition costs comprise all direct and indirect costs arising from the writing of insurance contracts. An explicit deferred acquisition costs asset has been established in the balance sheet. Deferred acquisition costs are amortised at a rate based on the pattern of anticipated margins in respect of the related policies. Deferred acquisition costs have been limited to the extent that there are available future margins.

For general business, acquisition costs are written off in the year in which they are incurred as this most appropriately reflects the nature of the contracts underwritten.

Long term business provision

Long-term business technical provisions are computed using statistical and mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each long-term contract. The computations are made by suitably skilled Group employees under the supervision of the Actuarial function holder, on the basis of recognised actuarial methods, with due regard to the actuarial principles laid down in European law and by best actuarial practice in the UK. The methodology takes into account the risks and uncertainties of the particular classes of long term business written and the results are certified by the Actuarial function holder.

The calculation principally uses the net premium valuation method and as such, includes explicit provision for vested bonuses (including those vested following the current valuation). Implicit provision is made for future bonuses by means of a reduction in the valuation rate of interest. For contracts not valued by a net premium method the reserve is equal to the deposit fund or value of units notionally allocated, as appropriate. Further reserves are held for additional benefits and future expense overruns. The calculation is sensitive to the interest rate used to discount the provision and the assumed future mortality of policyholders, both of which are determined on a prudent basis and disclosed in note 22.

Fund for future appropriations

The fund for future appropriations comprises amounts in relation to participating policies and other non-linked policies, the allocation of which to policyholders has not yet been determined by the balance sheet date. When the allocation of the funds is determined appropriate transfers are made out of this fund.

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2008

2. ACCOUNTING POLICIES (continued)

Taxation

Long-term insurance business

Current tax is the amount estimated to be payable or recoverable as a result of the application of the rules for the taxation of life insurance companies to the items included in the long-term business technical account together with any prior period adjustments.

Deferred tax is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except that deferred tax assets are recognised only to the extent that recovery is regarded as more likely than not.

The group has chosen not to apply the option available under FRS 19 of discounting deferred tax assets and liabilities to reflect the time value of money.

Non-technical account

Tax on profit on ordinary activities comprises current tax, deferred tax and the reversal of the tax credit representative of shareholders' share of the total tax on long term business.

Deferred tax is recognised as noted above.

The balance on the long-term business technical account transferred to the non-technical account is net of the total tax attributable to long-term business. Accordingly in order for shareholders' profits on long term business to be presented on a pre-tax basis in the non technical account a tax credit representative of shareholders' share of the total tax on long term business is added. The credit is calculated at the effective rate implied by the tax charged or credited in respect of shareholders profits in the long-term business technical account. An equal and opposite amount is included in the tax charge in the non-technical account.

Pensions

The group currently operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Up to 31 March 1996 the group operated a defined benefits pension scheme for its employees. Contributions to this scheme are accounted for in accordance with FRS17 – retirement benefits. As explained in Note 9 to these financial statements, the scheme has a deficit in respect of which the group is continuing to make monthly contributions, agreed with the Trustees and approved by the scheme's actuary, until the deficit has been eliminated.

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2008

3. SEGMENTAL ANALYSIS

The provision of long-term business and general business in the United Kingdom are regarded by the directors as the two business segments.

a) Analysis of long-term business premiums

	2008		2007	
	Gross £000	Net £000	Gross £000	Net £000
Life contracts	14,998	14,951	20,763	20,717
Pension contracts	22,167	22,158	12,098	12,090
Permanent health contracts	167	167	178	178
Other contracts	43,228	43,228	41,694	41,694
Total	80,560	80,504	74,733	74,679
Participating contracts	2,637	2,637	3,054	3,054
Non-participating contracts	5,774	5,774	4,383	4,383
Unit linked	72,149	72,093	67,296	67,242
Total	80,560	80,504	74,733	74,679
Periodic premiums	33,857	33,801	30,423	30,369
Single premiums	46,703	46,703	44,310	44,310
Total	80,560	80,504	74,733	74,679

b) New long-term business premiums

	2008		2007	
	Gross £000	Net £000	Gross £000	Net £000
Life contracts	10,160	10,160	16,097	16,097
Pension contracts	19,899	19,899	9,813	9,813
Permanent health contracts	60	60	60	60
Other contracts	30,639	30,639	30,655	30,655
Total	60,758	60,758	56,625	56,625
Participating contracts	-	-	-	-
Non-participating contracts	5,510	5,510	4,459	4,459
Unit linked	55,248	55,248	52,166	52,166
Total	60,758	60,758	56,625	56,625
Periodic premiums	14,055	14,055	12,315	12,315
Single premiums	46,703	46,703	44,310	44,310
Total	60,758	60,758	56,625	56,625

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2008

3. SEGMENTAL ANALYSIS (continued)

b) New long-term business premiums (continued)

In classifying new business premiums, the basis of recognition adopted is as follows:

- incremental increases on existing policies are classified as new business premiums;
- rebates from the Department of Social Security are classified as new single premiums;
- funds at retirement under individual pension contracts left with the company are classified as new business single premiums and for accounting purposes are included in both claims incurred and as single premiums within gross premiums written.

Where periodic premiums are received other than annually, such premiums are included on an annualised basis.

c) All general business transacted by the company was direct business related to a single segment and fell within the "accident and health" group of classes prescribed by paragraph 75 of Schedule 9A to the Companies Act 1985. All risks were located in the United Kingdom and all premiums resulted from contracts of insurance concluded in the United Kingdom. The general business was sold on 2 January 2008

d) Analysis of net assets and operating profits (before tax)

	Net assets		Operating profit/ (loss) (before tax)	
	2008 £000	2007 £000	2008 £000	2007 £000
Life business	38,477	48,420	(17,497)	703
General business	-	5,711	-	1,488
Investment business	469	400	96	21
Administrative/ marketing support	2,648	2,459	4,517	612
Total	41,594	56,990	(12,884)	2,824

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2008

4. INVESTMENT INCOME

	Technical account Long term business		Non-technical account	
	2008 £000	2007 £000	2008 £000	2007 £000
Income from listed investments	20,839	19,214	452	252
Other investment income	669	556	155	287
Gains on the realisation of investments	7,846	17,532	561	642
Expected return on pension scheme assets (refer note 9)	-	-	251	411
Interest on pension scheme liabilities	-	-	(251)	(393)
Total investment income	29,354	37,302	1,168	1,199

Realised gains and losses for 2008 and 2007 relate to listed investments held directly or through Open Ended Investment Companies.

5. OTHER INCOME

Other income is related to the recharge of the expenses incurred by Forester Holdings (Europe) Ltd to the UK branch of the IOF in Canada, income from the long-term business operation and management fees from the group's general business technical account.

6. OTHER CHARGES

Net Operating expenses

	Technical account Long term business		Technical account General business		Non-technical account	
	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000
Acquisition costs	8,550	7,493	-	177	-	-
Change in deferred acquisition costs	(785)	(2,435)	-	-	-	-
Administrative expenses	3,626	2,846	-	644	1,387	1,686
Total	11,391	7,904	-	821	1,387	1,686

Net operating expenses include:

	2008 £000	2007 £000
Depreciation	114	129
Operating lease charges	511	492
Fees paid to the company's auditors and their associates:		
Audit services – group	176	197
- company	44	31
-pension scheme	13	13
Non-audit services: corporate taxation	-	5

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

7. STAFF COSTS

	2008 £000	2007 £000
Wages and salary costs	7,468	7,555
Social security costs	923	886
Other pension costs	778	867
Other employee welfare	13	7
Total	9,182	9,315

The group's average weekly number of employees during the period was as follows:

	2008	2007
Administration/management	72	79
Sales personnel	136	133
	208	212

The company had 72 employees during the period.(2007 - 79)

8. DIRECTORS' EMOLUMENTS

The aggregate amount of directors' emoluments, including pension scheme contributions, was as follows:

	2008 £000	2007 £000
Emoluments	394	437
Payable under a long-term incentive plan	84	78
Pension contributions to money purchase scheme	32	34
	510	549

The chair received no emoluments.

The aggregate of emoluments receivable by the highest paid director, including retirement benefits, was £276,000 (2007 - £307,000).

Retirement benefits are accruing under a money purchase scheme to 2 directors (2007 – 2 directors).

During 2008 and 2007 directors' emoluments were paid by the company.

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

9. PENSION SCHEME

As explained in accounting policies on page 19, a number of employees and former employees are members of a group defined benefit pension scheme, which was available until March 31 1996. An actuarial valuation was carried out as at 31 December 2008 by a qualified independent actuary.

The major assumptions used by the actuary as at 31 December were:

	2008	2007	2006
Rate of increase in salaries	N/A	N/A	N/A
Rate of increase in pensions in payment (Limited Price Index)	2.5%	3.25%	3%
Discount rate	6.5%	5.66%	5.1%
Inflation assumption	2.5%	3.25%	3%

As the defined benefit scheme has been closed since April 1996 the rate of increase in salaries is not applicable because it has no effect on the actuarial liabilities.

The assets in the scheme and rates of return were:

	Rates of return per annum			Value of assets		
	2008	Expected 2007	2006	2008	2007	2006
				£000	£000	£000
Fixed interest bonds	6.5%	5.7%	4.7%	5,069	4,766	4,792
Equities	6.8%	7.5%	7.8%	1,125	1,663	1,757
Other (cash)	4.0%	5.6%	5.3%	150	188	162
Pension annuities (secured)	6.5%	5.7%	5.1%	687	762	796
Total				7,031	7,379	7,507
Asset balance not recognised				(805)	-	-
Present value of liabilities (including secured liabilities)				(6,226)	(7,442)	(7,997)
Tax credit (28%)					17	147
Surplus (deficit) at end of year				-	(46)	(343)

There is no current service cost as benefit accrual ceased before the start of the accounting period. No past service benefit improvements have been implemented during the accounting period.

The change in deficit during the year is analysed as follows:

	2008	2007
	£000	£000
Deficit as at 1 January	(46)	(343)
Expected return on assets	251	411
Interest cost	(251)	(393)
Gain (loss) on settlements/curtailments	-	-
Actuarial gains (losses) (see below)	(155)	271
Employer contributions (net of charges)	218	138
Deferred tax (charge)/credit	(17)	(130)
Deficit as at 31 December	-	(46)

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

9. PENSION SCHEME (continued)

History of experience gains and losses

	2008	2007	2006	2005
Difference between the expected and actual return on scheme assets:				
Amount (£000)	(357)	(43)	(154)	372
Percentage of scheme assets	(5.1%)	(0.6%)	(1.9%)	4.7%
Experience gains and losses on scheme liabilities:				
Amount (£000)	18	(27)	(474)	443
Percentage of scheme liabilities	0.3%	(0.3%)	(5.9%)	5.4%
Changes in assumptions underlying the present value of the scheme liabilities				
Amount (£000)	800	341	209	(873)
Percentage of scheme liabilities	12.8%	4.2%	2.6%	(10.7%)
Pension fund surplus not recognised (£000)	(616)	-	-	-
Percentage of scheme liabilities	(9.9%)	-	-	-
Total amount recognised in statement of total recognised gains and losses:				
Amount (£000)	(155)	(271)	(419)	(58)
Percentage of scheme liabilities	(2.5%)	3.3%	(5.2%)	(0.7%)

The group parent company undertook to contribute £12,000 per month with effect from 1 April 2000 to reduce the deficit by April 2007. Following the completion of the March 2005 actuarial valuation, the contribution level was confirmed and will remain until the deficit has been eliminated.

The actuarial valuation at 31 December 2008 showed a surplus on the scheme of £805,000 mainly as a result of a higher discount rate being applied to liabilities. As the company does not have effective control of the surplus, no pension scheme asset has been recognised. The surplus has been deducted in the consolidated profit and loss account- non technical account (£189,000) and the statement of total recognised gains and losses (£616,000).

With effect from 1 April 1996, the company, with the agreement of the trustees of the scheme, approved the amendment of the scheme to a defined contribution basis for future benefits from that date. The assets of this scheme are also held separately from the company. Current employees are members of this defined contribution pension scheme.

The employees of Forester Life Limited and Forester Holdings (Europe) Limited (and 2007: Forester Health Limited) are members of the scheme in respect of which Forester Holdings (Europe) Limited is the principal employer. No other company in the group had any members of the scheme.

Other pension costs shown in note 7 represent the group's expense in respect of the defined contribution scheme. No amounts were either accrued or prepaid at the balance sheet date.

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

10. TAXATION

	Technical account Long term business		Non-technical account	
	2008 £000	2007 £000	2008 £000	2007 £000
Current tax				
Tax attributable to shareholders' profits on long term business at effective rate of tax	288	2,319	-	-
UK corporation tax at 28.5% (2007: 30%)			554	781
Group relief from non-technical account	(495)	-	-	-
Prior year adjustment	(6)	(533)		(32)
Total current tax	<u>(213)</u>	<u>1,786</u>	<u>554</u>	<u>749</u>
Deferred tax				
Origination/(reversal) of timing differences	(2,270)	(1,914)	(53)	(368)
Reduction in rate of provision		(432)		(8)
Prior year adjustment	-	(102)		(1)
Total deferred tax	<u>(2,270)</u>	<u>(2,448)</u>	<u>(53)</u>	<u>(377)</u>
Total taxation charge / (credit)	<u>(2,483)</u>	<u>(662)</u>	<u>501</u>	<u>372</u>

UK corporation tax in the technical account has been charged at rates between 20% and 28.5% in accordance with the rates applicable to life assurance companies.

The current tax charge (2007-charge) to the non-technical account was higher than (2007-lower than) the standard rate of corporation tax in the UK (28.5%; 2007: 30%). The differences are explained below.

	2008 £000	2007 £000
<i>Current tax reconciliation</i>		
Surplus/(deficit) on ordinary activities before tax	<u>(11,320)</u>	<u>2,824</u>
Current tax at 28.5% (2007: 30%)	(3,226)	847
<i>Effects of:</i>		
Different tax basis for life assurance companies	(182)	(146)
Unrealised equity losses	4,162	354
Deferred gains on fixed interest securities	1,416	-
Capital allowances in excess of depreciation	14	(64)
Net non-taxable gains less net disallowed expenditure and other timing differences	(1,395)	(38)
Non-taxable dividends received	(121)	(90)
Utilisation of losses on which deferred tax was not recognised	(108)	(82)
Adjustments to previous year	(6)	(32)
Total current tax charge (see above)	<u>554</u>	<u>749</u>

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

11. INVESTMENT EXPENSES AND CHARGES

	Technical account Long term business	
	2008	2007
	£000	£000
Investment expenses	759	722
Losses on the realisation of investments	11,478	2,407
Total	12,237	3,129

12. INVESTMENTS- GROUP

a) Investments comprise:

	Current Value and Amortised Cost		Historical Cost	
	2008	2007	2008	2007
	£000	£000	£000	£000
Other financial investments:				
Shares and other variable yield Securities (at current value)	102,498	127,438	125,445	108,652
Debt securities and other fixed income securities (at amortised cost)	145,636	161,885	149,255	165,000
Total investments	248,134	289,323	274,700	273,652

The current value of 'Other financial investments' is £267,979,000 (2007: £298,860,000).

b) All 'Other financial investments' are listed on the UK Stock or other recognised EU Stock Exchanges.

c) The debt securities and other fixed income securities, which are shown at amortised cost, are analysed below:

	2008 £000	2007 £000
Cost	149,255	165,000
Cumulative amortisation	(3,619)	(3,115)
Amortised cost	145,636	161,885
Market value	165,422	171,422

The redemption value of investments held at the year-end was £6.9 million (2007: £6.5 million) lower than the amortised cost.

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

13. INVESTMENTS IN GROUP UNDERTAKINGS

	Group current Value/cost 2008 £000	2007 £000	Company at cost 2008 £000	2007 £000
Shares in group undertakings	-	-	13,150	8,133
Interest in associated undertakings	25	25	25	25
Total	25	25	13,175	8,158

The interest in associated undertakings has not been included at equity valuation on the grounds of immateriality.

On 2 January 2008 the company completed the sale of its healthcare insurance subsidiary, Forester Health Limited.

On 23 December 2008 the company subscribed for and was allotted 7,500,000 ordinary £1 shares at par in Forester Life Limited.

The movement in the cost of the company's investments in group undertakings during the year was:

	2008 £000	2007 £000
At beginning of the financial year	8,133	8,133
Sale of Forester Health	(2,483)	-
Allotment of additional shares in Forester Life	7,500	-
At end of the financial year	13,150	8,133

Investments in group undertakings, which are all registered in England and Wales, are as follows:

<i>Name</i>	<i>Class of shares held</i>	<i>Proportions held directly indirectly</i>	<i>Principal activity</i>
Forester Life Limited	Ordinary	100%	Life assurance
Forester Investments Limited	Ordinary	100%	Collection of deferred sale proceeds
BHCA (Services) Limited	Ordinary	25%	Premium collection services for health companies
Forester Management Services Limited	Ordinary	100%	Non-trading
Forester Financial Services Limited	Ordinary	100%	Non-trading
Forester Insurance Services Limited	Ordinary	100%	Non-trading
Foresters Limited	Ordinary	100%	Non-trading

For each of the above companies, voting rights exactly match the proportion of shares held.

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

14. OTHER FINANCIAL INVESTMENTS- COMPANY

a) Investments comprise:

	Current Value		Historical Cost	
	2008 £000	2007 £000	2008 £000	2007 £000
a) Other financial investments:				
Shares and other variable yield securities (at current value)	3,580	-	4,518	-

b) All 'Other financial investments' are listed on the UK Stock or other recognised EU Stock Exchanges.

15. ASSETS HELD TO COVER LINKED LIABILITIES

The purchase price of investments included under assets held to cover linked liabilities was £202,439,000 (2007: £166,552,000).

16. OTHER DEBTORS

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Amount due from ultimate parent company	300	-	300	-
Amounts owed by fellow subsidiaries	-	-	1,115	896
Taxation recoverable	699	89	-	-
Prepayments	410	586	410	586
Other debtors	870	128	830	40
Total	2,279	803	2,655	1,522

Other debtors include future payments due following the sale of Forester Health Limited.

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

17. TANGIBLE FIXED ASSETS – GROUP and COMPANY

<i>Fixed assets</i>	<i>Leasehold buildings</i>	<i>Computer equipment</i>	<i>Furniture and equipment</i>	<i>Total</i>
At cost	£000	£000	£000	£000
At beginning of year	948	719	417	2,084
Additions in year	14	14	5	33
Disposals in year	-	(145)	-	(145)
At end of year	962	588	422	1,972
Depreciation				
At beginning of year	940	572	325	1,837
Charge in year	5	77	32	114
Disposals in year	-	(145)	-	(145)
At end of year	945	504	357	1,806
Net book value at beginning of year	8	147	92	247
Net book value at end of year	17	84	65	166

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

18. CALLED UP SHARE CAPITAL

	2008 £000	2007 £000
Authorised: 20,000 ordinary shares of £1 each	<u>20</u>	<u>20</u>
Allotted, called up and fully paid 20,000 ordinary shares of £1 each	<u>20</u>	<u>20</u>

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S RESERVES

a) Reconciliation- Group

	Called up share capital £000	Capital reserve £000	Capital contribution £000	Profit and loss account £000	Total Group £000
At beginning of the financial year	20	1,564	29,189	26,217	56,990
(Loss) for the financial year	-	-	-	(13,385)	(13,385)
Release of capital reserve (refer Note 20)		(1,564)		1,564	-
Other recognised gains/(losses) less tax thereon				(111)	(111)
Dividends declared	-	-	-	(1,900)	(1,900)
At end of the financial year	<u>20</u>	<u>-</u>	<u>29,189</u>	<u>12,385</u>	<u>41,594</u>

The capital contribution represents the surplus contained within the long-term business fund, at the date of the transfer of long-term business from The Independent Order of Foresters, which is not attributable to with profits business. The group capital contribution also includes the non-returnable payment received by the company from The Independent Order of Foresters.

The amounts available for distribution are restricted by the Interim Prudential Sourcebook for Insurers in respect of long-term business. The profit and loss account balance includes £nil for the group which is non-distributable.

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S RESERVES (continued)

b) Reconciliation – Company

	Called up share capital £000	Capital contribution £000	Profit and loss account £000	Total Company £000
At beginning of the financial year	20	5,000	5,310	10,330
Net profit for the financial year	-	-	1,440	1,440
Write-back (provision) for pension liability after tax			63	63
Dividends receivable less declared			3,703	3,703
At end of the financial year	20	5,000	10,516	15,536

20. CAPITAL RESERVE

On 23 December 1996 the group acquired the entire membership rights of Forester Health Limited (formerly called London Area Mobile Physiotherapy Service Limited), a company limited by guarantee. The capital reserve represented the excess of the net assets acquired in this company over the purchase consideration. As this negative goodwill arose before 1 January 1998, in accordance with FRS 10, the group did not restate this negative goodwill and amortise it over its useful economic life. Forester Health Limited was sold on 2 January 2008 and the capital reserve was thereby released and transferred to the consolidated profit and loss account as shown in note 19 above.

21. FUND FOR FUTURE APPROPRIATIONS

	2008 £000	2007 £000
At beginning of the financial year	54,077	52,420
Transfer to the technical account - long term business	(27,643)	1,657
At end of the financial year	26,434	54,077

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

22. TECHNICAL PROVISIONS

	Claims outstanding		Total	Long-term business provision	Technical provisions for linked liabilities
	General business	Long-term business			
	£000	£000	£000	£000	£000
Gross Amount					
At beginning of the financial year	490	3,236	3,726	194,191	179,127
Movements from/(to):					
Long term business technical account		635	635	(1,487)	16,591
Transfer inwards (outwards) of technical provisions	(490)	90	(400)	1,693	1,542
At end of the financial year	-	3,961	3,961	194,397	197,260

a) Claims outstanding- general business

The claims outstanding at beginning of the year were included in the Forester Health business sold on 2 January 2008.

b) Claims outstanding- long term business

Claims outstanding are calculated in respect of matured policies that have not yet been paid and death claims that have been notified but not paid. The calculated amount is that payable as at the date of death or maturity plus an allowance for interest up to the balance sheet date.

c) Long term business provision

For all classes of non-linked business, except accumulating policies, the long term business provision is calculated on a net premium basis. The net premium is the level premium consistent with a premium stream whose discounted value at the outset of the policy would be sufficient to exactly cover the discounted value of the original guaranteed benefits at maturity or earlier death or disability. The net premium is limited to a proportion of the corresponding office premium; the proportion is 1 for permanent health insurance contracts and 0.925 for all other contracts.

The provision is then calculated by subtracting the present value of future net premiums from the present value of the benefits now guaranteed because of events up to the balance sheet date (i.e. the original

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

22. TECHNICAL PROVISIONS (continued)

c) Long term business provision (continued)

guaranteed benefits plus any reversionary bonuses which have attached by the balance sheet date). No provision is made for future possible reversionary or terminal bonuses. Negative provisions are not allowed. The net premium basis makes no allowance for voluntary discontinuance by policyholders and only implicitly allows for future bonuses and expenses.

For accumulating policies, the long term business provision is equal to the deposit fund plus an additional reserve of one half of the monthly deductions for the benefits selected and, where applicable, a further provision for guaranteed insurability benefits.

Additional provisions are calculated in respect of rider benefits, permanent health insurance claims in payment, additional expense reserves and tax.

The principal assumptions underlying the calculation of the long term business provision are:

Rates of interest	2008	2007
<i>Life assurance</i>		
With Profit	2.25%	2.25%
Without Profit	2.50%	2.75%
<i>Pensions</i>		
Term assurance	3.25%	3.50%
Pensions in payment	3.50%	3.75%
<i>Permanent health insurance</i>	3.25%	3.50%
Mortality table	A00 ultimate plus R6a	A00 ultimate plus R6a

Under the net premium method, the long term business provision is sensitive to the interest rate used to discount the provision and the assumed future mortality of policyholders, both of which are determined on a prudent basis.

d) Technical provisions for linked liabilities

For those policies where benefits are linked to specific pools of assets, the technical provisions for linked liabilities are calculated as the number of units attaching to each policy multiplied by the appropriate unit price at the balance sheet date. In addition, a cash flow projection using prudent assumptions is undertaken for each policy to establish whether future inflows to the company are sufficient to cover future outflows. If not, an additional provision is included in the long term business provision.

The net assets held to cover linked liabilities at the balance sheet date did not significantly differ from the technical provisions for linked liabilities.

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

22. TECHNICAL PROVISIONS (continued)

e) Transfer inwards of technical provisions

On 24 October 2008 the High Court of Justice in England authorised the transfer to the company of the life assurance business of Domestic & General Life Assurance Company Limited. The transfer took effect from 1 November 2008 and the technical provisions transferred are shown above. Net assets at current value representing these provisions were correspondingly transferred to the company.

23. LONG TERM FUND

At 31 December 2008 the total amount of assets representing the long term fund valued in accordance with Schedule 9A to the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 was £425,414,000 (2007: £437,266,000).

24. RISKS ARISING FROM FINANCIAL INSTRUMENTS

The group makes use of the following financial instruments in the ordinary course of its business:

Assets- fixed interest and index-linked debt securities; equities; deposits with banks; policy loans; and sundry debtors;

Liabilities – technical provisions; claims in the course of payment; sundry creditors and accruals.

The group currently makes no use of derivatives. Board approval would be required before their use.

The group is subject to credit risk, market risk and liquidity risk in respect of its financial assets and these risks are managed by setting limits for holdings in various asset classes based on their perceived risk levels and regular management reporting against those limits. There have been no changes in the objectives, policies or processes of risk management in the period. Substantially all life business written since 1996 has been unit-linked, so that the group is not subject to market risk in relation to the underlying assets.

Credit risk – the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises on debt instruments held for investment, settlement risk on all securities transactions, loans to policyholders, reinsurance debtors and balances on deposit with banks.

The group invests only in debt instruments with a credit rating of BBB or greater, based on ratings supplied by two rating agencies (and if the agencies disagree, the lower rating is used). Stringent limits are set for maximum exposure by both credit rating and borrower. Impairment of credit quality would be manifest in the price.

All securities transactions are settled on a Delivery Versus Payment basis. Settlement risk is therefore considered to be negligible.

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

24. RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The group reinsures significant individual risks with either its ultimate parent company, the Independent Order of Foresters, or a third party reinsurer. The group has been a net payer of premiums over the past several years and the credit risk on the reinsurers is considered minimal. Further, all risks are reinsured on a risk-premium basis, whereby each premium paid to the reinsurer covers only the previous month's risk.

The group sets limits on its total exposure to its bankers, including limits on amounts placed on deposit.

Due to the nature of the life company's business, premium debtors are not material. Certain pre-1995 policies have the feature that unpaid premiums are treated as paid by means of an automatic interest-bearing loan to the policyholder. The amount of the loan is regularly compared to the surrender value of the policy and the policy is lapsed if it moves into deficit.

Assets subject to credit risk, including those covering linked liabilities, at the balance sheet date were as follows:

Asset type	2008 £m	2007 £m
Debt securities (at market value)		
Gilts	192.2	193.6
Other AAA rated	62.0	53.5
AA rated	11.2	14.0
Debtors	6.8	5.5
Deposits with banks	20.6	16.8
Accrued investment income	4.0	4.1
Total	<u>296.8</u>	<u>287.5</u>

As explained above, policy loans, which made up £4.3 million (2007: £4.4 million) of the debtor balance, are secured on the underlying value of the policy. Apart from this the group held no collateral or other credit enhancements.

In the case of premium debtors, at 31 December 2008 £nil (2007: £0.3 million) was due from BHCA Services Limited (BHCA), a related party which collects health premiums from a number of customers, mainly government departments. Following the sale of Forester Health, the group has no financial risk to BHCA and manages any non financial risk by its representation on the BHCA board. Substantially all the group's debtors were current at 31 December 2008 and 2007.

No amounts at the balance sheet date were either past due or impaired.

Liquidity risk – the risk that the group will have difficulty in meeting the obligations associated with financial liabilities.

The group minimises liquidity risk by taking the following steps:

Preparing daily cash-flow forecasts covering the next 3 months;

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

24. RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Holding operational and investment cash balances sufficient to meet expected outflows for at least one month;

Paying claims and expenses out of premiums received and investment income as far as possible;

Setting investment limits which require a high level of investments to be held in the most liquid assets (e.g. UK Government bonds); and

Maintaining an appropriate overdraft facility with its bankers to allow business to proceed in the event of major short-term operational problems.

The group does not currently have foreign currency investments. Its liquidity risk is therefore confined to sterling.

Medium term liquidity risk is identified during the budgeting process. There are no significant timing differences between income and receipt or expenditure and payment.

The contractual maturity dates for the group's liabilities at 31 December were:

	2008	2007
	£m	£m
<3 months or on demand	11.9	12.8
3-12 months	8.1	9.3
1-5 years	31.2	30.9
>5 years	114.1	106.8
Total	<u>165.3</u>	<u>159.8</u>

Most of the group's insurance contracts are whole-of-life, without any contractual maturity date. Policyholders may however surrender their policies at any time, and the group's investment assets are sufficiently marketable to minimise liquidity risk.

Market risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The group's assets and liabilities are all denominated in sterling and hence it has no direct currency risk.

The group benchmarks its returns against high-rated market indices. Benchmark allocations are changed infrequently and require Board approval. Actual asset allocations are maintained close to benchmark. The group also sets allocation limits for equities by individual holding, sector and market.

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

24. RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis

As part of the process of calculating technical provisions, the life company is required to calculate a provision to cover the eventuality of adverse movements in asset prices. The assumptions used are that equity prices fall by 10% and fixed income yields increase by 0.9%. Changes in asset values for assets matching unit linked and ring-fenced business are borne by policyholders. The effect on the price movements on the pretax profit for the year was:

	2008 £m	2007 £m
Interest rate risk		
Fixed income securities (minimal effect as they are carried at amortised cost in Forester Life)	0.1	-
Other price risk		
Equities	(3.2)	(4.0)

25. POLICYHOLDER BONUSES

Bonuses added during the year are included in the change in long- term business provision or, where the policy is no longer in force, in claims incurred. The total cost of bonuses was £2,384,000 (2007: £2,559,000).

26. PROVISIONS FOR OTHER RISKS AND CHARGES

	<i>Low cost endowments</i> £000	<i>Provision for deferred taxation</i> £000	<i>Total</i> £000
At beginning of the financial year	163	2,420	2,583
Amounts paid during year	(25)	-	(25)
Provisions made/ (released)	-	(2,270)	(2,270)
Movement in the year	(25)	(2,270)	(2,295)
At end of the financial year	138	150	288

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

26. PROVISIONS FOR OTHER RISKS AND CHARGES continued

Low cost endowments

The low cost endowments provision represents an initial estimate of the company's possible liabilities in respect of its sales of low cost endowment policies in conjunction with third party mortgage loans taken out by policyholders during the 1980's and early 1990's. The company considers this provision to be adequate to meet potential liabilities; however, the ultimate amount which will be payable is uncertain. The costs of compensation are borne by the non profits fund.

Deferred taxation

The group has no provisions for deferred taxation other than as shown above. In addition to the provision shown above, the group and company had a potential deferred tax asset of £6,942,000 and £597,000 respectively (2007: £2,917,000 and £558,000) in respect of trading and capital losses. This has not been recognised in these financial statements because recovery is considered to be uncertain in the foreseeable future.

27. OTHER CREDITORS (amounts falling due within one year)

	Group		Company	
	2008	2007	2008	2007
	£000	£000	£000	£000
Amount due to ultimate parent company	-	160	-	160
Amounts due to fellow subsidiaries	-		397	319
Taxation and social security	724	1,654	693	222
Other creditors including accruals	2,606	2,100	2,041	1,984
Dividend payable	1,900	1,600	1,900	1,600
Total	5,230	5,514	5,031	4,285

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

28. COMMITMENTS

Annual commitments of the group under non-cancellable operating leases are as follows:

	2008 £000	2007 £000
Land and buildings		
Operating Leases which expire:		
In the second to fifth years inclusive	306	306
Total	<u>306</u>	<u>306</u>
Other		
Operating Leases which expire:		
Within one year	35	257
In the second to fifth years inclusive	368	166
Total	<u>403</u>	<u>423</u>

The group and the company had no capital commitments contracted for at 31 December 2008 (2007- £nil and £nil respectively).

29. RELATED PARTY TRANSACTIONS

As explained in note 13, BHCA (Services) Limited is a related party of the group. Mr. J.F. Gillespie is a director of both the company and BHCA (Services) Limited. During 2008 Forester Health Limited paid BHCA (Services) Limited £nil (2007: £42,000) in respect of premium collection services. At 31 December 2008 there were no amounts owed to BHCA (Services) Limited by the group (2007: £11,000).

30. ULTIMATE PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS

During the year and at the year end, the ultimate parent undertaking and the undertaking which headed the largest and smallest group of undertakings for which group financial statements are drawn up and of which the company was a member was The Independent Order of Foresters, a fraternal benefit society, incorporated in Canada with limited liability.

The consolidated financial statements are available to the public and may be obtained from Foresters House, Cromwell Avenue, Bromley BR2 9BF.

Forester Holdings (Europe) Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2008

Parent Company profit and loss account (not forming part of the audited accounts)
For the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Turnover		12,379	12,567
Administrative expenses			
Management expenses recoverable		(12,249)	(12,320)
Operating profit		130	247
Investment income including realised gains		1,158	210
Unrealised gains/ (losses) on investments		(937)	-
Losses on realization of investments		(202)	-
Profit on disposal of subsidiary		1,775	
Profit on ordinary activities before taxation		1,924	457
Tax (charge)/credit		(484)	40
Profit for the financial year		1,440	497
(Provision) release for Pension liability (net of tax)		63	297
Dividends receivable less (payable) from subsidiaries		3,703	(750)
Net profit for the financial year		5,206	44

The company had no recognised gains or losses other than those included in the Profit and Loss account.

All income and expenditure is derived from continuing operations except for the profit on disposal of subsidiary.