

# **FORESTER HOLDINGS (EUROPE) LIMITED**

(Registered in England & Wales, no. 3013082)

## **REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

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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**

Foresters House

Cromwell Avenue

Bromley

BR2 9BF

Telephone 020 8628 3400

Fax 020 8628 3500

# **Forester Holdings (Europe) Limited**

## **Report of the Directors**

The directors present their report and the audited financial statements for the year ended 31 December 2007

### ***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.

### ***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 company has traded very successfully in a highly competitive 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 new basic advice regime, which has been welcomed by new and existing customers. These new products have lower expense margins, however, due to increased productivity and customer confidence, progress towards acquisition costs breakeven has not been impeded. During 2007 the company enhanced its Protection product range by increasing the number of critical illnesses covered fourfold and introducing Mortgage Protection cover.

Sales for the year, measured by the accepted method of counting single premiums as 10% of amount received, exceeded sales targets and were 11% higher than 2006. 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 new 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 were lower than the previous year because 2006 results included "catch-up" allocations by the Revenue dating back to the introduction of Child Trust Funds in 2002.

With regard to the company's investments, its strategic asset allocation remained essentially unchanged throughout the year. Forester Life's bond portfolios consisted largely of UK gilts, with almost all the remaining holdings possessing an AAA rating. As a matter of policy, the Company does not invest in derivatives of any kind and Board approval would be required to amend this policy.

# Forester Holdings (Europe) Limited

## Report of the Directors (continued)

### *Review of Business and future development (continued)*

The company's equity portfolios outpaced benchmark indices for most of the year. At the year-end the company's Balanced Fund was a top quartile performer in the Cautious Managed sector over 1, 3, 5 and 10 years and top performer for the 10 year period\*

\*Source: Citewire based on performance to 31 December 2007 for Cautious Managed Funds

The company incurred a lower profit during the year mainly as a result of the new business strain of writing more protection and savings business. The benefits of this new business will be received in future years. The underlying profitability of acquiring new business was evidenced during the year when the costs of writing and issuing new business were exceeded by the acquisition expense margins contained in the products sold.

In terms of non-life activities, the group successfully completed its withdrawal from managing open ended investment funds and Forester Investment Limited ceased to be an Authorised Corporate Director in October 2007.

Finally following a strategic review, the group decided to concentrate entirely on its core business, namely the marketing and administering of Life Assurance for the benefit of our members and as a result to leave the hospital cash plan and healthcare market. The group disposed of its subsidiary, Forester Health Limited, to BHSF, one of the longstanding leaders in this field. Contracts were signed during the autumn and the sale was completed on 2 January 2008.

Enhancements in the forthcoming year will include a revised ISA to reflect changes in fiscal regulations. The company has wholeheartedly adopted the regulator's programme to imbue a culture of "Treating Customers Fairly" within its normal operating processes.

In addition to product enhancements in 2008, a new Life administration processing system will be purchased to further improve the services provided to our existing customers and to support the expected growth in new business volumes. Building upon the achievements over the past decade and continuing the policy to offer its members competitive products, excellent service and the opportunity to become involved in Foresters charitable and community activities, it is also envisaged that the group will continue to look for growth through appropriate collaborative arrangements and suitable acquisitions or mergers in the life sector.

### ***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 following future legal or regulatory changes, for example withdrawal of the basic advice regime,

# Forester Holdings (Europe) Limited

## Report of the Directors (continued)

### *Risks and uncertainties (continued)*

#### **Life business (continued)**

- 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,
- 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

#### **General business**

- fluctuations in the timing, severity and frequency of claims compared with expectations,
- erosion of core customer base due to changes in employment benefits,
- inaccurate pricing of risk when setting premium rates,
- adverse movements in the value of financial investments,

Risks are monitored closely. The company is able to mitigate its risks by changing its terms of general business, 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. 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 16 to the financial statements.

### ***FSA Pensions and Endowment Mortgages Reviews***

There were no cases outstanding under the Personal Pensions Review at 31 December 2007.

Note 25 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.

# **Forester Holdings (Europe) Limited**

## **Report of the Directors (continued)**

### ***Results and dividends***

The group profit for the year after taxation amounted to £2,452,000 (2006 £4,790,000) Total recognised gains in the year, after accounting for the pension deficit, were £2,593,000 (2006 - £4,518,000)

An interim dividend of £1,600,000 was declared during the year (2006 £1,800,000)

### ***Directors***

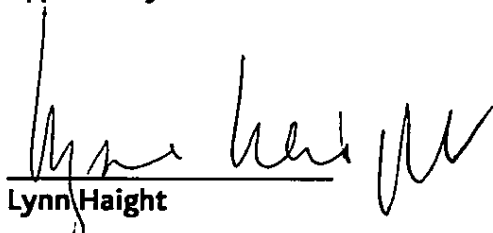
The directors of the company during the year are listed on page 3 of these financial statements

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 6 March 2008 and signed on its behalf.**



**Lynn Haight**

# 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 are 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 2007, 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 8.

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 company's circumstances, consistently applied and adequately disclosed.

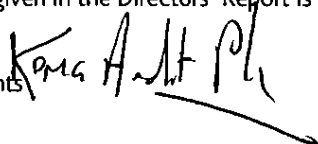
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 2007 and of the group's profit 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  
6 March 2008



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 2007

	<i>Notes</i>	<b>2007 £000</b>	<b>2007 £000</b>	<b>2006 £000</b>	<b>2006 £000</b>
<b>Discontinued activities</b>					
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	3		6,330		6,896
Change in the gross provision for unearned premiums			<u>14</u>		<u>(1)</u>
			6,344		6,895
<b>Allocated investment return transferred from the non-technical account</b>			393		581
			<u>6,737</u>		<u>7,476</u>
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Gross amount		4,586		5,436	
Change in the provision for claims					
Gross amount	21	<u>(158)</u>		<u>(34)</u>	
			4,428		5,402
<b>Net operating expenses</b>	6		821		755
<b>Balance on the technical account - general business</b>			<u>1,488</u>		<u>1,319</u>

# Forester Holdings (Europe) Limited

## Consolidated profit and loss account – Technical account – Long term business For the year ended 31 December 2007

	<i>Notes</i>	<b>2007 £000</b>	<b>2007 £000</b>	<b>2006 £000</b>	<b>2006 £000</b>
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	3	74,733		80,329	
Outward reinsurance premiums		<u>(54)</u>		<u>(121)</u>	
			74,679		80,208
<b>Investment income</b>	4		37,302		39,429
<b>Unrealised gains on investments</b>			-		3,526
			<u>111,981</u>		<u>123,163</u>
<b>Claims incurred, net of reinsurance</b>					
<b>Claims paid:</b>					
Gross amount		39,243		31,655	
Reinsurers' share		<u>(20)</u>		<u>(4)</u>	
		39,223		31,651	
<b>Change in the provision for claims:</b>					
Gross amount	21	170		408	
Reinsurers' share		<u>-</u>		<u>-</u>	
		<u>170</u>		<u>408</u>	
			39,393		32,059
<b>Change in other technical provisions, net of reinsurance</b>					
Long term provision net of reinsurance					
Gross amount	21	(5,709)		(4,637)	
Reinsurers' share		<u>-</u>		<u>-</u>	
		(5,709)		(4,637)	
Other technical provisions, net of reinsurance	21	<u>53,178</u>		<u>68,822</u>	
			47,469		64,185
<b>Net operating expenses</b>	6		7,904		9,089
<b>Investment expenses and charges</b>	11		3,129		3,436
<b>Unrealised losses on investments</b>			12,363		-
<b>Tax attributable to the long term business fund</b>	10		(662)		3,532
<b>Transfers to/ (from) the fund for future appropriations</b>	20		1,657		7,728
<b>Sub-total (balance on the technical account for long term business)</b>			<u>728</u>		<u>3,134</u>

## Forester Holdings (Europe) Limited

### Consolidated profit and loss account - non-technical account For the year ended 31 December 2007

		2007 £000	2007 £000	2006 £000	2006 £000
	<i>Notes</i>				
Balance on the general business technical account			1,488	1,319	1,319
			1,488		
Balance on the long term business technical account		728		3,134	
Tax (charge) credit attributable to the long term business technical account		(25)		506	
Pre - tax profit arising on long term business			703		3,640
Investment income	4	1,199		689	
Unrealised gains on investments		(563)		108	
Allocated investment return transferred to the general business technical account		(393)		(581)	
			243		216
Other income	5		2,076		2,621
Other charges	6		(1,686)		(2,018)
Profit on ordinary activities before taxation			2,824		5,778
Tax on profit on ordinary activities	10		372		988
Profit for the financial year	18		2,452		4,790

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 2007

		2007 £000	2006 £000
Profit for the financial year		2,452	4,790
Actuarial profit/(loss) on pension fund	9	271	(419)
Deferred tax on pension fund		(130)	147
Total recognised gains and losses since last annual report		2,593	4,518

# Forester Holdings (Europe) Limited

## Consolidated balance sheet as at 31 December 2007

	Notes	2007 £000	2006 £000
<b>ASSETS</b>			
<b>Investments</b>			
Interest in associated undertakings	13	25	25
Other financial investments	12	289,323	304,808
		<u>289,348</u>	<u>304,833</u>
<b>Assets held to cover linked liabilities</b>	14	179,127	125,949
<b>Debtors- amounts falling due within 1 year</b>			
Debtors arising out of direct insurance operations - policyholders		4,670	4,471
Debtors arising out of reinsurance operations		-	-
Other debtors	15	<u>803</u>	<u>895</u>
		<u>5,473</u>	<u>5,366</u>
<b>Debtors- amounts falling due beyond 1 year</b>		36	105
<b>Other assets</b>			
Tangible assets	16	247	218
Cash at bank and in hand		13,075	5,907
		<u>13,322</u>	<u>6,125</u>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		2,611	2,289
Deferred acquisition costs- long term business		8,504	6,068
		<u>11,115</u>	<u>8,357</u>
<b>Total assets</b>		<u><u>498,421</u></u>	<u><u>450,735</u></u>

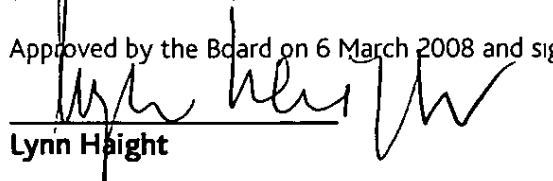
# Forester Holdings (Europe) Limited

Consolidated balance sheet (continued)  
as at 31 December 2007

	<i>Notes</i>	<b>2007 £000</b>	<b>2006 £000</b>
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	17	20	20
Capital contribution	18	29,189	29,189
Capital reserve	18	1,564	1,564
Profit and loss account	18	26,217	25,224
<b>Shareholder's funds attributable to equity interests</b>		<b>56,990</b>	<b>55,997</b>
<b>Fund for future appropriations</b>	20	54,077	52,420
<b>Technical provisions</b>			
Provision for unearned premiums		89	103
Long term business provision	21	194,191	199,900
Claims outstanding	21	3,726	3,714
<b>Total technical provisions</b>		<b>198,006</b>	<b>203,717</b>
<b>Technical provision for linked liabilities</b>	21	179,127	125,949
<b>Provisions for other risks and charges</b>	25	2,583	5,093
<b>Creditors (amounts falling due within one year)</b>			
Creditors arising out of direct insurance operations		879	892
Creditors arising out of reinsurance operations		138	129
Amounts owed to credit institutions		847	613
Other creditors including taxation and social security	26	5,514	5,193
		<b>7,378</b>	<b>6,827</b>
<b>Creditors (amounts falling due beyond one year)</b>		<b>66</b>	<b>105</b>
<b>Accruals and deferred income</b>		<b>148</b>	<b>284</b>
<b>Total liabilities before pension liability</b>		<b>498,375</b>	<b>450,392</b>
<b>Pension liability</b>	9	<b>46</b>	<b>343</b>
<b>Total liabilities after pension liability</b>		<b>498,421</b>	<b>450,735</b>

Included in Shareholder's funds are reserves of £43,691,000  
(2006 £43,344,000) which are not distributable

Approved by the Board on 6 March 2008 and signed on its behalf

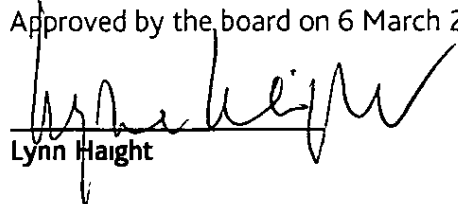
  
Lynn Haight

# Forester Holdings (Europe) Limited

## Parent company balance sheet as at 31 December 2007

	<i>Notes</i>	<b>2007 £000</b>	<b>2006 £000</b>
<b>Fixed assets</b>			
Investments in group undertakings	13	8,133	8,133
Interest in associated undertakings	13	25	-
		<u>8,158</u>	<u>8,133</u>
<b>Current assets</b>			
Debtors	15	1,522	2,200
<b>Other assets</b>			
Tangible assets		247	-
Cash at bank and in hand		4,891	2,417
		<u>5,138</u>	<u>2,417</u>
Prepayments and accrued income interest		-	6
		<u>6,660</u>	<u>4,623</u>
<b>Creditors (amounts falling due within one year)</b>			
Other creditors including taxation and social security	26	4,285	2,127
Amounts owed to credit institutions		91	-
		<u>4,376</u>	<u>2,127</u>
<b>Current liabilities</b>			
		<u>2,284</u>	<u>2,496</u>
<b>Net current assets (liabilities)</b>			
		66	-
<b>Net assets before pension liability</b>		<u>10,376</u>	<u>10,629</u>
<b>Pension liability</b>		(46)	(343)
<b>Net assets after pension liability</b>		<u>10,330</u>	<u>10,286</u>
Represented by			
<b>Capital and reserves</b>			
Called up share capital	18	20	20
Capital contribution	18	5,000	5,000
Profit and loss account	18	5,310	5,266
<b>Shareholder's funds attributable to equity interests</b>		<u>10,330</u>	<u>10,286</u>

Approved by the board on 6 March 2008 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 2007

### 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 29).

### 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 2007**

### **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 2007

### 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 account in the event of disposal of the relevant business. 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 2007

### 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 21.

#### *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 2007

### 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 accounts, 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 2007

### 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

	2007		2006	
	Gross £000	Net £000	Gross £000	Net £000
Life contracts	20,763	20,717	21,612	21,499
Pension contracts	12,098	12,090	11,224	11,216
Permanent health contracts	178	178	199	199
Other contracts	41,694	41,694	47,294	47,294
<b>Total</b>	<b>74,733</b>	<b>74,679</b>	<b>80,329</b>	<b>80,208</b>
Participating contracts	3,054	3,054	3,482	3,482
Non-participating contracts	4,383	4,383	4,068	4,068
Unit linked	67,296	67,242	72,779	72,658
<b>Total</b>	<b>74,733</b>	<b>74,679</b>	<b>80,329</b>	<b>80,208</b>
Periodic premiums	30,423	30,369	25,028	24,907
Single premiums	44,310	44,310	55,301	55,301
<b>Total</b>	<b>74,733</b>	<b>74,679</b>	<b>80,329</b>	<b>80,208</b>

#### b) New long-term business premiums

	2007		2006	
	Gross £000	Net £000	Gross £000	Net £000
Life contracts	16,097	16,097	16,663	16,663
Pension contracts	9,813	9,813	9,335	9,335
Permanent health contracts	60	60	60	60
Other contracts	30,655	30,655	39,796	39,796
<b>Total</b>	<b>56,625</b>	<b>56,625</b>	<b>65,854</b>	<b>65,854</b>
Participating contracts	-	-	-	-
Non-participating contracts	4,459	4,459	3,812	3,812
Unit linked	52,166	52,166	62,042	62,042
<b>Total</b>	<b>56,625</b>	<b>56,625</b>	<b>65,854</b>	<b>65,854</b>
Periodic premiums	12,315	12,315	10,553	10,553
Single premiums	44,310	44,310	55,301	55,301
<b>Total</b>	<b>56,625</b>	<b>56,625</b>	<b>65,854</b>	<b>65,854</b>

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2007

### 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 is direct business related to a single segment and falls within the "accident and health" group of classes prescribed by paragraph 75 of Schedule 9A to the Companies Act 1985. All risks are located in the United Kingdom and all premiums resulted from contracts of insurance concluded in the United Kingdom

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

	Net assets		Operating profit/ (loss) (before tax)	
	2007 £000	2006 £000	2007 £000	2006 £000
Life business	48,420	47,692	703	3,765
General business	5,711	5,496	1,488	1,319
Investment business	400	386	21	192
Administrative/ marketing support	2,459	2,423	614	627
<b>Total</b>	<b>56,990</b>	<b>55,997</b>	<b>2,826</b>	<b>5,903</b>

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2007

### 4. INVESTMENT INCOME

	Technical account Long term business		Non-technical account	
	2007 £000	2006 £000	2007 £000	2006 £000
Income from listed investments	19,214	16,459	252	265
Other investment income	556	457	287	229
Gains on the realisation of investments	17,532	22,513	642	190
Expected return on pension scheme assets			411	380
Interest on pension scheme liabilities			(393)	(375)
<b>Total investment income</b>	<b>37,302</b>	<b>39,429</b>	<b>1,199</b>	<b>689</b>

Realised gains and losses for 2007 and 2006 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 (2006 Forester Management Services Limited) 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. NET OPERATING EXPENSES

	Technical account Long term business		Technical account General business		Non-technical account	
	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000
Acquisition costs	7,493	7,256	177	191	-	-
Change in deferred acquisition costs	(2,435)	(1,326)	-	-	-	-
Administrative expenses	2,846	3,159	644	564	1,686	2,018
<b>Total</b>	<b>7,904</b>	<b>9,089</b>	<b>821</b>	<b>755</b>	<b>1,686</b>	<b>2,018</b>

Net operating expenses include

	2007 £000	2006 £000
Depreciation	129	205
Operating lease charges	257	404
Fees paid to the company's auditors and their associates		
Audit services - group	197	191
- company	31	26
-pension scheme	13	11
Non-audit services corporate taxation	5	3
Defined benefit pension costs – loss on settlements and curtailments	-	-

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2007

### 7. STAFF COSTS

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
Wages and salary costs	7,555	7,684
Social security costs	886	895
Other pension costs	867	736
Other employee welfare	7	8
<b>Total</b>	<b>9,315</b>	<b>9,323</b>

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

	<b>2007</b>	<b>2006</b>
Administration/management	79	79
Sales personnel	133	125
	<b>212</b>	<b>204</b>

The company had 79 employees during the period (2006-nil)

### 8. DIRECTORS' EMOLUMENTS

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

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
Emoluments	437	346
Payable under a long-term incentive plan	78	59
Pension contributions to money purchase scheme	34	24
	<b>549</b>	<b>429</b>

The chair received no emoluments

The aggregate of emoluments receivable by the highest paid director, including retirement benefits, was £317,000 (2006 £182,000)

Retirement benefits are accruing under a money purchase scheme to 2 directors (2006 – 2 directors)

In 2007, directors emoluments were paid by the company (2006 directors' emoluments were paid by Forester Management Services Limited and recharged to the company)



# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2007

### 9. PENSION SCHEME

As explained in accounting policies on page 20, 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 2007 by a qualified independent actuary.

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

	2007	2006	2005
Rate of increase in salaries	N/A	N/A	N/A
Rate of increase in pensions in payment (Limited Price Index)	3.25%	3%	2.75%
Discount rate	5.66%	5.1%	4.7%
Inflation assumption	3.25%	3%	2.75%

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		
	2007	Expected 2006	2005	2007	2006	2005
				£000	£000	£000
Fixed interest bonds	5.7%	4.7%	4.1%	4,766	4,792	4,824
Equities	7.5%	7.8%	8.0%	1,663	1,757	1,839
Other (cash)	5.6%	5.3%	4.0%	188	162	443
Pension annuities (secured)	5.7%	5.1%	4.7%	762	796	858
Total				7,379	7,507	7,964
Present value of liabilities (including secured liabilities)				7,442	7,997	8,177
Surplus (deficit) at end of year				(63)	(490)	(213)

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:

	2007	2006
	£000	£000
Deficit as at 1 January	(343)	(213)
Expected return on assets	411	380
Interest cost	(393)	(375)
Gain (loss) on settlements/curtailments	-	-
Actuarial gains (losses) (see below)	271	(419)
Employer contributions (net of charges)	138	137
Deferred tax (charge)/credit	(130)	147
Deficit as at 31 December	(46)	(343)

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2007

### 9. PENSION SCHEME (continued)

#### History of experience gains and losses

	2007	2006	2005
Difference between the expected and actual return on scheme assets			
Amount (£000)	(43)	(154)	372
Percentage of scheme assets	(0.6%)	(1.9%)	4.7%
Experience gains and losses on scheme liabilities			
Amount (£000)	(27)	(474)	443
Percentage of scheme liabilities	(0.3%)	(5.9%)	5.4%
Changes in assumptions underlying the present value of the scheme liabilities			
Amount (£000)	341	209	(873)
Percentage of scheme liabilities	4.2%	2.6%	(10.7%)
Total amount recognised in statement of total recognised gains and losses			
Amount (£000)	271	(419)	(58)
Percentage of scheme liabilities	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.

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, Forester Health Limited and Forester Holdings (Europe) Limited (2006 Forester Management Services 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 2007

### 10. TAXATION

	Technical account long term business		Non-technical account	
	2007 £000	2006 £000	2007 £000	2006 £000
UK corporation tax	-	-	781	482
Tax attributable to shareholders' profits on long term business at effective rate of tax	2,319	1,472	-	-
Prior year adjustment	(533)	86	(32)	86
<b>Total current tax</b>	<b>1,786</b>	<b>1,558</b>	<b>749</b>	<b>568</b>
Deferred taxation	(2,448)	1,974	(377)	420
<b>Total deferred tax</b>	<b>(2,448)</b>	<b>1,974</b>	<b>(377)</b>	<b>420</b>
<b>Total taxation charge</b>	<b>(662)</b>	<b>3,532</b>	<b>372</b>	<b>988</b>

UK corporation tax in the technical account has been charged at rates between 20% and 30% in accordance with the rates applicable to life assurance companies

The current tax charge (2006-charge) to the non-technical account is lower than the standard rate of corporation tax in the UK (30%, 2006 30%) The differences are explained below

	2007 £000	2006 £000
<i>Current tax reconciliation</i>		
Surplus/(deficit) on ordinary activities before tax	2,824	5,778
Current tax at 30% (2006 30%)	847	1,733
<i>Effects of</i>		
Different tax basis for life assurance companies	(146)	(1,027)
Unrealised equity losses	354	-
Capital allowances in excess of depreciation	(64)	(95)
Utilisation of losses on which deferred tax was not recognised	(82)	(55)
Non-taxable dividends received	(90)	(88)
Net disallowed expenditure and other timing differences	(38)	14
Adjustments to previous year	(32)	86
<b>Total current tax charge (see above)</b>	<b>749</b>	<b>568</b>

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2007

### 11. INVESTMENT EXPENSES AND CHARGES

	Technical account Long term business	
	2007	2006
	£000	£000
Investment expenses	722	743
Losses on the realisation of investments	2,407	2,693
<b>Total</b>	<b>3,129</b>	<b>3,436</b>

### 12. INVESTMENTS- GROUP

#### a) Investments comprise:

	Current Value and Amortised Cost		Historical Cost	
	2007	2006	2007	2006
	£000	£000	£000	£000
<b>Other financial investments:</b>				
Shares and other variable yield Securities (at current value)	127,438	136,510	108,652	107,169
Debt securities and other fixed income securities (at amortised cost)	161,885	168,298	165,000	171,231
<b>Total investments</b>	<b>289,323</b>	<b>304,808</b>	<b>273,652</b>	<b>278,400</b>

The current value of 'Other financial investments' is £298,860,000 (2006 £313,906,000)

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

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2007

### 12. INVESTMENTS- GROUP (continued)

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

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
Cost	165,000	171,232
Cumulative amortisation	(3,115)	(2,934)
Amortised cost	<u>161,885</u>	<u>168,298</u>
Market value	<u>171,422</u>	<u>177,396</u>

The redemption value of investments held at the year-end was £6.5 million (2006 £7.9 million) lower than the amortised cost

### 13. INVESTMENTS IN GROUP UNDERTAKINGS

	<b>Group current</b>		<b>Company cost</b>	
	<b>Value/cost</b>			
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Shares in group undertakings	-	-	8,133	8,133
Interest in associated undertakings	25	25	25	-
<b>Total</b>	<b>25</b>	<b>25</b>	<b>8,158</b>	<b>8,133</b>

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. Included in the 2007 consolidated financial statements were net assets of £5.7 million, premium income of £6.3 million and net income after tax of £1.065 million relating to the operation of this subsidiary.

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2007

### 13. INVESTMENTS IN GROUP UNDERTAKINGS (continued)

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>Proportion held directly</i>	<i>Proportion held indirectly</i>	<i>Principal activity</i>
Forester Life Limited	Ordinary	100%		Life assurance
Forester Health Limited (a company limited by guarantee)	Membership Right	100%		Physiotherapy and Cash Plan insurance
Forester Investments Limited	Ordinary	100%		Ceased to be an authorised corporate director October 2007
Forester Management Services Limited (formerly Forester Financial Services Limited)	Ordinary	100%		Non-trading
Forester Financial Services Limited (formerly Forester Management Services Limited)	Ordinary	100%		Ceased trading December 31 2006
Forester Insurance Services Limited	Ordinary	100%		Non-trading
Foresters Limited (formerly The Foresters Limited)	Ordinary	100%		Non-trading
BHCA (Services) Limited	Ordinary	25%		Premium collection services for health companies

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

Forester Management Services Limited and Forester Financial Services Limited exchanged names on 20 July 2007. The company now called Forester Management Services Limited will be dissolved in due course.

### 14. ASSETS HELD TO COVER LINKED LIABILITIES

The purchase price of investments included under assets held to cover linked liabilities was £166,552,000 (2006: £113,497,000).

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2007

### 15. OTHER DEBTORS-

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Amount due from ultimate parent company	-	287	-	-
Amounts owed by fellow subsidiaries			896	20
Dividends receivable			-	2,180
Taxation recoverable	89	89	-	-
Prepayments	586	444	586	-
Other debtors	128	75	40	-
<b>Total</b>	<b>803</b>	<b>895</b>	<b>1,522</b>	<b>2,200</b>

Prepayments include expenses which will be expensed in 2008 following completion of the sale of Forester Health Limited

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2007

### 16. 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>
<i>At cost</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At beginning of year	947	591	411	1,949
Additions in year	1	153	6	160
Disposals in year	-	(25)	-	(25)
<b>At end of year</b>	<b>948</b>	<b>719</b>	<b>417</b>	<b>2,084</b>
<b>Depreciation</b>				
At beginning of year	938	498	295	1,731
Charge in year	2	97	30	129
Disposals in year	-	(23)	-	(23)
<b>At end of year</b>	<b>940</b>	<b>572</b>	<b>325</b>	<b>1,837</b>
Net book value at beginning of year	9	93	116	218
<b>Net book value at end of year</b>	<b>8</b>	<b>147</b>	<b>92</b>	<b>247</b>

On 1 January 2007 the above fixed assets were transferred at net book value from Forester Management Services Limited to the company



# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2007

### 17. CALLED UP SHARE CAPITAL

	2007 £000	2006 £000
<b>Authorised:</b>		
20,000 ordinary shares of £1 each	<u>20</u>	<u>20</u>
<b>Allotted, called up and fully paid</b>		
20,000 ordinary shares of £1 each	<u>20</u>	<u>20</u>

### 18. 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	25,224	55,997
Profit for the financial year	-	-	-	2,452	2,452
Other recognised gains/(losses) less tax thereon				141	141
Dividends declared	-	-	-	(1,600)	(1,600)
<b>At end of the financial year</b>	<b>20</b>	<b>1,564</b>	<b>29,189</b>	<b>26,217</b>	<b>56,990</b>

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 £12,918,000 for the group which is non-distributable.

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2007

### 18. 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	5,266	10,286
Net profit for the financial year	-	-	497	497
Write-back (provision) for pension liability after tax			297	297
Dividends declared less receivable			(750)	(750)
<b>At end of the financial year</b>	<b>20</b>	<b>5,000</b>	<b>5,310</b>	<b>10,330</b>

### 19. 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 represents 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 will not be restating this negative goodwill and amortising it over its useful economic life. However any future goodwill arising will be capitalised and amortised in accordance with FRS 10. As noted elsewhere in these accounts, Forester Health Limited was sold on 2 January 2008.

### 20. FUND FOR FUTURE APPROPRIATIONS

	2007 £000	2006 £000
At beginning of the financial year	52,420	44,692
Transfer to the technical account - long term business	1,657	7,728
<b>At end of the financial year</b>	<b>54,077</b>	<b>52,420</b>

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2007

### 21. TECHNICAL PROVISIONS

	Claims outstanding		Total	Long-term business provision	Technical provisions for linked liabilities
	General business	Long-term business			
	£000	£000	£000	£000	£000
<b>Gross Amount</b>					
At beginning of the financial year	648	3,066	3,714	199,900	125,949
Movement from/(to)					
the general business technical account	(158)	-	(158)	-	-
the long term business technical account	-	170	170	(5,709)	53,178
<b>At end of the financial year</b>	<b>490</b>	<b>3,236</b>	<b>3,726</b>	<b>194,191</b>	<b>179,127</b>

#### a) Claims outstanding- general business

The provision for claims outstanding combines a provision for claims notified but not paid and a provision for claims incurred but not reported ("IBNR"). Because of the nature of the company's business, claims notified may be accurately quantified immediately. The IBNR provision is based on an average time between claim occurrence and notification and an average value per claim, and is therefore sensitive to the assumption that neither average will move greatly in the short term.

#### 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 2007

### 21. 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

<b>Rates of interest</b>	<b>2007</b>	<b>2006</b>
<i>Life assurance</i>		
With Profit	2.25%	2.25%
Without Profit	2.75%	2.75%
<i>Pensions</i>		
Term assurance	3.50%	3.50%
Pensions in payment	3.75%	3.75%
<i>Permanent health insurance</i>	3.50%	3.50%
<b>Mortality table</b>	A00 ultimate plus R6a	A80 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 2007**

### **22. LONG TERM FUND**

At 31 December 2007 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 £437,266,000 (2006 £390,710,000)

### **23 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

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

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2007

### 23. RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

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

Asset type	2007 £m	2006 £m
Debt securities (at market value)		
Gilts	193.6	180.9
Other AAA rated	53.5	46.1
AA rated	14.0	11.9
A rated	-	3.1
Debtors	5.5	5.5
Deposits with banks	16.8	7.9
Accrued investment income	4.1	3.1
Total	<u>287.5</u>	<u>258.5</u>

As explained above, policy loans, which made up £4.4 million (2006-£4.3 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 2007 approximately £0.3 million (2006- £0.1 million) was due from BHCA Services Limited (BHCA), a related party which collects premiums from a number of customers, mainly government departments. The group controls its risk to BHCA by using its representation on the BHCA board and to the underlying debtors by the usual credit control procedures. Substantially all the group's debtors were current at 31 December 2007 and 2006.

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,

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.

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2007

### 23. RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

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:

	2007 £m	2006 £m
<3 months or on demand	12.8	14.4
3-12 months	9.3	7.2
1-5 years	30.9	29.7
>5 years	106.8	99.1
Total	159.8	150.4

Most of the life company'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.

#### 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:

	2007 £m	2006 £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	(4.0)	(4.4)

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2007

### 24 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 £2,559,000 (2006 £3,005,000)

### 25. PROVISIONS FOR OTHER RISKS AND CHARGES

	<i>Low cost endowments £000</i>	<i>Provision for deferred taxation £000</i>	<i>Total £000</i>
At beginning of the financial year	225	4,868	5,093
Amounts paid during year	(62)	-	(62)
Provisions made/ (released)	-	(2,016)	(2,016)
Effect of change in tax rate		(432)	(432)
Movement in the year	(62)	(2,448)	(2,510)
<b>At end of the financial year</b>	<b>163</b>	<b>2,420</b>	<b>2,583</b>

#### 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 £2,917,000 and £558,000 (2006 £3,778,000 and £373,000 respectively) 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.



# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2007

### 26. OTHER CREDITORS (amounts falling due within one year)

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Amount due to ultimate parent company	160	-	160	-
Amounts due to fellow subsidiaries			319	287
Taxation and social security	1,654	1,296	222	40
Other creditors including accruals	2,100	2,097	1,984	-
Dividend payable	1,600	1,800	1,600	1,800
<b>Total</b>	<b>5,514</b>	<b>5,193</b>	<b>4,285</b>	<b>2,127</b>

### 27. COMMITMENTS

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

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
<b>Land and building</b>		
Operating Leases which expire		
In the second to fifth years inclusive	306	-
More than five years	-	306
<b>Total</b>	<b>306</b>	<b>306</b>
<b>Other</b>		
Operating Leases which expire		
Within one year	257	60
In the second to fifth years inclusive	166	318
<b>Total</b>	<b>423</b>	<b>378</b>

The group and the company had no capital commitments contracted for at 31 December 2007 (2006- £69,000 and £nil respectively)

# **Forester Holdings (Europe) Limited**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

**as at 31 December 2007**

### **28. 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 Forester Health Limited and BHCA (Services) Limited. During 2007 Forester Health Limited paid BHCA (Services) Limited £42,000 (2006- £44,000) in respect of premium collection services. At 31 December 2007 Forester Health Limited owed BHCA (Services) Limited £11,000 (2006- £15,000).

### **29. 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.