

# **FORESTER HOLDINGS (EUROPE) LIMITED**

(Registered In England & Wales, no. 3013082)

## **REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2009**

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# **Forester Holdings (Europe) Limited**

<b>Contents</b>	<b>Page</b>
Board of directors	3
Report of the directors	4 -6
Statement of directors' responsibilities	7
Independent auditors' report	8
Consolidated profit and loss account technical account- long term business	9
Consolidated profit and loss account non-technical account	10
Consolidated balance sheet	11-12
Parent company balance sheet	13
Notes	14-36
Parent company profit and loss account (not forming part of audited financial statements)	37

# **Forester Holdings (Europe) Limited**

## **BOARD OF DIRECTORS**

G S Mohacsí\* (Chair)

E T Allison

B E Bloom\*

M Christophers\*

S Giffen\*

(Appointed 6 November 2009)

M R Granville\*

(Appointed 6 November 2009)

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

1 Canada Square

London E14 5AG

## **Registered Office**

Foresters House

Cromwell Avenue

Bromley

BR2 9BF

Telephone 020 8628 3400

Fax 020 8628 350

Website [www.foresters.co.uk](http://www.foresters.co.uk)

# **Forester Holdings (Europe) Limited**

## **Report of the Directors**

The directors present their report and the audited financial statements for the year ended 31 December 2009

### ***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 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). The group's activity is now focused 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 had another successful year in a highly competitive market, 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 (ISAs) sold through the basic advice regime, which has been appreciated by new and existing customers.

Life sales for the year, measured by the accepted method of counting single premiums as 10% of amount received, were 14% higher than 2008. Sales were completed mostly by the company's direct salesforce on its Point of Sale system which includes an automated decision tree analysis 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 2008 levels.

Expenses continued to be tightly controlled, with operating expenses broadly unchanged from the previous year. The combination of strong sales and expense control resulted in a continued underrun on acquisition and total expenses.

The group's investment assets outperformed a benchmark portfolio by some £4m. The company made substantial additions to equity portfolios at advantageous levels during the first quarter, and realised significant profits from equity portfolios during the second half of the year.

The established policy of focusing on the very highest quality fixed interest securities contributed to the group's resilience during the stressed environment of the first quarter, though this restricted performance later in the year, as credit spreads tightened again.

Forester Life's Balanced Fund, whose assets represent 49% of the group's total investments, continued to perform strongly. At the year-end, Citiwire ranked it within the first quartile of the ABI Cautious Managed sector over 3, 5 and 10 years, and it ranked above the sector average over all periods from 3 months to 10 years.

# Forester Holdings (Europe) Limited

## Report of the Directors (continued)

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

Premium income was 6% higher than 2008 and partial and total encashments were 10% lower than the previous year, reflecting in part the company's good investment performance compared to alternative investment options against a background of very low interest rates. The company returned to profit in the year, despite the new business strain arising on high sales levels.

The company intends to grow organically via its professional direct sales force, expanding when and where feasible, and is also investigating internet distribution of its savings products.

The financial strength of the group, 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 its new policy processing system and its expectation of growth by further acquisitions.

### *Risks and uncertainties*

The principal risks facing the group are as follows:

#### **Life business**

- 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,
- inaccurate pricing of risk when setting premium rates for non-linked products,
- materially adverse movements in the value of non-linked financial investments,
- adequacy of data security,
- operational risks arising from inadequate or failed internal processes, people or systems, or from external events,
- exposure to catastrophic mortality, morbidity and experience factors such as persistency, longevity and unforeseen expenses.

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.

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

# **Forester Holdings (Europe) Limited**

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

### ***Investment Property***

The group has no investment property

### ***Fixed Assets***

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

### ***FSA Endowment Mortgages Reviews***

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

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

The group profit for the year after taxation amounted to £6,934,000 (2008 loss £13,385,000) Total recognised gains and losses in the year, after accounting for the pension deficit, were £6,656,000- gain (2008 - £13,496,000- loss)

No dividends were declared during the year (2008 £1,900,000)

### ***Directors***

The directors of the company during the year are listed on page 3 of these financial statements. In addition, Mr J Gillespie served as a director until 3 April 2009 and Mrs L Haight (Chair) and Mr J Cowan served as directors until 6 November 2009. The Board would like to express its appreciation of the contributions made to the company by Mr Gillespie, Mrs Haight and Mr Cowan.

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 4 March 2010 and signed on its behalf.**



**George Mohacsi**  
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.

Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK 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 group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and 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 2006. 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Independent auditors' report to the member of Forester Holdings (Europe) Limited**

We have audited the financial statements of Forester Holdings (Europe) Ltd for the year ended 31 December 2009 set out on pages 9 to 36. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. 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 auditors' 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**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

## **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

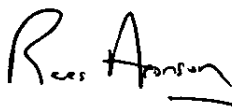
## **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



**R Aronson (Senior Statutory Auditor)**  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
1 Canada Square, London, E14 5AG  
4 March 2010



## Forester Holdings (Europe) Limited

### Consolidated profit and loss account: Technical account- Long term business For the year ended 31 December 2009

	<i>Note</i>	<b>2009 £000</b>	<b>2009 £000</b>	<b>2008 £000</b>	<b>2008 £000</b>
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	3	85,312		80,560	
Outward reinsurance premiums		<u>(99)</u>		<u>(56)</u>	
			85,213		80,504
<b>Investment income</b>	4		31,809		29,354
<b>Unrealised gains on investments</b>			<u>55,248</u>		<u>-</u>
			172,270		109,858
<b>Claims incurred, net of reinsurance</b>					
<b>Claims paid:</b>					
Gross amount		45,917		50,718	
Reinsurers' share		<u>(104)</u>		<u>(206)</u>	
		45,813		50,512	
<b>Change in the provision for claims:</b>					
Gross amount	21	(31)		635	
Reinsurers' share		<u>-</u>		<u>(200)</u>	
		<u>(31)</u>		<u>435</u>	
			45,782		50,947
<b>Change in other technical provisions, net of reinsurance</b>					
Long term provision net of reinsurance					
Gross amount	21	(2,367)		(1,487)	
Reinsurers' share		<u>-</u>		<u>-</u>	
		<u>(2,367)</u>		<u>(1,487)</u>	
Other technical provisions, net of reinsurance	21	<u>87,072</u>		<u>16,591</u>	
			84,705		15,104
<b>Net operating expenses</b>	6		11,238		11,391
<b>Investment expenses and charges</b>	11		11,834		12,237
<b>Unrealised losses on investments</b>			-		67,748
<b>Tax charge/(credit) attributable to the long term business fund</b>	10		(20)		(2,483)
<b>Transfers to/ (from) the fund for future appropriations</b>	20		13,188		(27,643)
<b>Sub-total (balance on the technical account for long term business)</b>			<u>5,543</u>		<u>(17,443)</u>

## Forester Holdings (Europe) Limited

### Consolidated profit and loss account - non-technical account For the year ended 31 December 2009

		2009 £000	2009 £000	2008 £000	2008 £000
	<i>Notes</i>				
Balance on the long term business technical account		5,543		(17,443)	
Tax charge/(credit) attributable to the long term business technical account		123		(54)	
Pre - tax profit arising on long term business			5,666		(17,497)
Investment income	4	216		1,168	
Unrealised gains/(losses) on investments		886		(937)	
			1,102		231
Other income	5		2,014		1,815
Other charges	6		(1,732)		(1,387)
Losses on realisation of investments			(31)		(202)
Profit on disposal of subsidiary			-		4,156
Profit/(loss) on ordinary activities before taxation			7,019		(12,884)
Tax on profit/(loss) on ordinary activities	10		(85)		(501)
Profit/(loss) for the financial year	20		6,934		(13,385)

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 2009

		2009 £000	2008 £000
Profit/(loss) for the financial year		6,934	(13,385)
Actuarial (loss)/ profit on pension fund	9	(343)	(155)
Deferred tax on pension fund		96	44
Total recognised gains and losses since last annual report		6,687	(13,496)

## Forester Holdings (Europe) Limited

### Consolidated balance sheet as at 31 December 2009

	Notes	2009 £000	2008 £000
<b>ASSETS</b>			
<b>Investments</b>			
Interest in associated undertakings	13	25	25
Other financial investments	12	264,192	248,134
		<u>264,217</u>	<u>248,159</u>
<b>Assets held to cover linked liabilities</b>	15	284,332	197,260
<b>Reinsurers' share of technical provisions</b>			
Claims outstanding		-	200
<b>Debtors- amounts falling due within 1 year</b>			
Debtors arising out of direct insurance operations - policyholders		4,200	4,334
Debtors arising out of reinsurance operations		50	-
Other debtors	16	994	2,279
		<u>5,244</u>	<u>6,613</u>
<b>Debtors- amounts falling due beyond 1 year</b>		-	-
<b>Other assets</b>			
Tangible fixed assets	17	203	166
Intangible assets	18	951	-
Cash at bank and in hand		5,245	6,789
		<u>6,399</u>	<u>6,955</u>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		2,080	2,402
Deferred acquisition costs- long term business		10,278	9,288
		<u>12,358</u>	<u>11,690</u>
<b>Total assets</b>		<u><u>572,550</u></u>	<u><u>470,877</u></u>

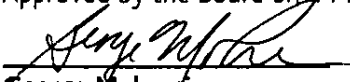
# Forester Holdings (Europe) Limited

## Consolidated balance sheet (continued) as at 31 December 2009

	<i>Notes</i>	<b>2009 £000</b>	<b>2008 £000</b>
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	19	20	20
Capital contribution	20	29,189	29,189
Profit and loss account	20	19,072	12,385
<b>Shareholder's funds attributable to equity interests</b>		<b>48,281</b>	<b>41,594</b>
<b>Fund for future appropriations</b>	21	39,622	26,434
<b>Technical provisions</b>			
Provision for unearned premiums		-	-
Long term business provision	22	192,030	194,397
Claims outstanding	22	3,930	3,961
<b>Total technical provisions</b>		<b>195,960</b>	<b>198,358</b>
<b>Technical provision for linked liabilities</b>	22	284,332	197,260
<b>Provisions for other risks and charges</b>	26	204	288
<b>Creditors (amounts falling due within one year)</b>			
Creditors arising out of direct insurance operations		792	794
Creditors arising out of reinsurance operations		46	38
Amounts owed to credit institutions		647	725
Other creditors including taxation and social security	27	2,404	5,230
		<b>3,889</b>	<b>6,787</b>
<b>Creditors (amounts falling due beyond one year)</b>		<b>53</b>	<b>53</b>
<b>Accruals and deferred income</b>		<b>102</b>	<b>103</b>
<b>Total liabilities before pension liability</b>		<b>572,443</b>	<b>470,877</b>
<b>Pension liability</b>	9	<b>107</b>	<b>-</b>
<b>Total liabilities after pension liability</b>		<b>572,550</b>	<b>470,877</b>

Included in Shareholder's funds are reserves of £29,209,000  
(2008 £29,209,000) which are not distributable

Approved by the Board on 4 March 2010 and signed on its behalf

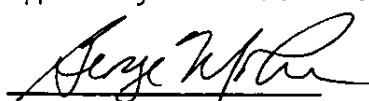
  
George Mohacsi

# Forester Holdings (Europe) Limited

## Parent company balance sheet as at 31 December 2009

	<i>Notes</i>	<b>2009 £000</b>	<b>2008 £000</b>
<b>Assets</b>			
Investments in group undertakings	13	12,900	13,150
Interest in associated undertakings	13	25	25
Other financial investments	14	2,905	3,580
		<u>15,830</u>	<u>16,755</u>
<b>Current assets</b>			
Debtors	16	2,070	2,655
<b>Other assets</b>			
Tangible fixed assets	17	203	166
Intangible assets	18	951	-
Cash at bank and in hand		816	1,098
		<u>1,970</u>	<u>1,264</u>
Prepayments and accrued income		<u>10</u>	<u>15</u>
<b>Total assets</b>		<u>19,880</u>	<u>20,689</u>
<b>Creditors</b> (amounts falling due within one year)			
Other creditors including taxation and social security	27	2,987	5,031
Amounts owed to credit institutions		51	69
<b>Current liabilities</b>		<u>3,038</u>	<u>5,100</u>
<b>Total assets less current liabilities</b>		<u>16,842</u>	<u>15,589</u>
<b>Creditors</b> (amounts falling due beyond one year)		53	53
<b>Net assets before pension liability</b>		<u>16,789</u>	<u>15,536</u>
<b>Pension liability</b>		-	-
<b>Net assets after pension liability</b>		<u>16,789</u>	<u>15,536</u>
Represented by			
<b>Capital and reserves</b>			
Called up share capital	20	20	20
Capital contribution	20	5,000	5,000
Profit and loss account	20	11,769	10,516
<b>Shareholder's funds attributable to equity interests</b>		<u>16,789</u>	<u>15,536</u>

Approved by the board on 4 March 2010 and signed on its behalf

  
George Mohacsi

# **Forester Holdings (Europe) Limited**

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

**As at 31 December 2009**

### **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 Companies Act 2006. As permitted by Section 408 of the Companies Act 2006, 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 were 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 FRS 1 ("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 2009**

### **2. ACCOUNTING POLICIES (continued)**

#### ***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.

#### ***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.

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

#### ***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.

#### ***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.

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2009

### 2. ACCOUNTING POLICIES (continued)

#### *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

#### *Depreciation and amortisation*

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

In addition, the development costs of the new Administration System have been capitalised and are being amortised over 7 years

#### *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.

#### *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.



# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2009

### 2. ACCOUNTING POLICIES (continued)

#### *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.

#### *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 2009

### 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

	2009		2008	
	Gross £000	Net £000	Gross £000	Net £000
Life contracts	14,344	14,264	14,998	14,951
Pension contracts	22,949	22,930	22,167	22,158
Permanent health contracts	190	190	167	167
Other contracts	47,829	47,829	43,228	43,228
<b>Total</b>	<b>85,312</b>	<b>85,213</b>	<b>80,560</b>	<b>80,504</b>
Participating contracts	2,287	2,287	2,637	2,637
Non-participating contracts	6,932	6,932	5,774	5,774
Unit linked	76,093	75,994	72,149	72,093
<b>Total</b>	<b>85,312</b>	<b>85,213</b>	<b>80,560</b>	<b>80,504</b>
Periodic premiums	36,528	36,429	33,857	33,801
Single premiums	48,784	48,784	46,703	46,703
<b>Total</b>	<b>85,312</b>	<b>85,213</b>	<b>80,560</b>	<b>80,504</b>

b) New long-term business premiums

	2009		2008	
	Gross £000	Net £000	Gross £000	Net £000
Life contracts	9,155	9,155	10,160	10,160
Pension contracts	20,135	20,135	19,899	19,899
Permanent health contracts	60	60	60	60
Other contracts	36,323	36,323	30,639	30,639
<b>Total</b>	<b>65,673</b>	<b>65,673</b>	<b>60,758</b>	<b>60,758</b>
Participating contracts	-	-	-	-
Non-participating contracts	5,785	5,785	5,510	5,510
Unit linked	59,888	59,888	55,248	55,248
<b>Total</b>	<b>65,673</b>	<b>65,673</b>	<b>60,758</b>	<b>60,758</b>
Periodic premiums	16,889	16,889	14,055	14,055
Single premiums	48,784	48,784	46,703	46,703
<b>Total</b>	<b>65,673</b>	<b>65,673</b>	<b>60,758</b>	<b>60,758</b>

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2009

### 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 for Work and Pensions 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) Analysis of net assets and operating profits (before tax)

	Net assets		Operating profit/ (loss) (before tax)	
	2009 £000	2008 £000	2009 £000	2008 £000
Life business	44,020	38,477	5,666	(17,497)
Investment business	-	469	-	96
Administrative/ marketing support	4,261	2,648	1,353	4,517
<b>Total</b>	<b>48,281</b>	<b>41,594</b>	<b>7,019</b>	<b>(12,884)</b>

### 4. INVESTMENT INCOME

	Technical account Long term business		Non-technical account	
	2009 £000	2008 £000	2009 £000	2008 £000
Income from listed investments	20,528	20,839	155	452
Other investment income	239	669	5	155
Gains on the realisation of investments	11,042	7,846	-	561
Expected return on pension scheme assets (note 9)	-	-	448	251
Interest on pension scheme liabilities	-	-	(392)	(251)
<b>Total investment income</b>	<b>31,809</b>	<b>29,354</b>	<b>216</b>	<b>1,168</b>

Realised gains and losses for 2009 and 2008 relate to listed investments held directly or through Open Ended Investment Companies

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2009

### 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 and income from the long-term business operation

### 6. OTHER CHARGES

#### Net Operating expenses

	Technical account Long term business		Non-technical account	
	2009 £000	2008 £000	2009 £000	2008 £000
Acquisition costs	8,797	8,550	-	-
Change in deferred acquisition costs	(990)	(785)	-	-
Administrative expenses	3,431	3,626	1,732	1,387
<b>Total</b>	<b>11,238</b>	<b>11,391</b>	<b>1,732</b>	<b>1,387</b>

Net operating expenses include

	2009 £000	2008 £000
Depreciation and amortisation	506	114
Operating lease charges	480	511
Fees paid to the company's auditors and their associates		
Audit services - group	176	176
- company	44	44
-pension scheme	13	13

### 7. STAFF COSTS

	2009 £000	2008 £000
Wages and salary costs	8,133	7,468
Social security costs	947	923
Other pension costs	825	778
Other employee welfare	18	13
<b>Total</b>	<b>9,923</b>	<b>9,182</b>

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

	2009	2008
Administration/management	73	72
Sales personnel	136	136
<b>Total</b>	<b>209</b>	<b>208</b>

The company had on average 73 employees during the period (2008 - 72)

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2009

### 8. DIRECTORS' EMOLUMENTS

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

	2009 £000	2008 £000
Emoluments	341	394
Payable under a long-term incentive plan	89	84
Compensation for loss of office	187	-
Pension contributions to money purchase scheme	85	32
	<u>702</u>	<u>510</u>

Neither chair received any emoluments

The aggregate of emoluments receivable by the highest paid director, including retirement benefits, was £329,000 (2008 - £276,000)

Retirement benefits accrued under a money purchase scheme to 2 directors (2008 – 2 directors)

During 2009 and 2008 directors' emoluments were paid by the company

### 9. PENSION SCHEME

As explained in accounting policies on page 17, 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 2009 by a qualified independent actuary.

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

	2009	2008	2007
Rate of increase in salaries	N/A	N/A	N/A
Rate of increase in pensions in payment (Limited Price Index)	3.5%	2.5%	3.25%
Discount rate	5.66%	6.5%	5.66%
Inflation assumption	3.5%	2.5%	3.25%

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.

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2009

### 9. PENSION SCHEME (continued)

The assets in the scheme and rates of return were

	Rates of return per annum Expected			Value of assets		
	2009	2008	2007	2009	2008	2007
				£000	£000	£000
Fixed interest bonds	5.7%	6.5%	5.7%	4,941	5,069	4,766
Equities	7.5%	6.8%	7.5%	1,354	1,125	1,663
Other (cash)	2%	4.0%	5.6%	176	150	188
Pension annuities (secured)	5.7%	6.5%	5.7%	791	687	762
Total				7,262	7,031	7,379
Asset balance not recognised					(805)	-
Present value of liabilities (including secured liabilities)				(7,411)	(6,226)	(7,442)
Tax credit (28%)				42	-	17
Surplus (deficit) at end of year				(107)	-	(46)

There is no current service cost as benefit accrual ceased in 1996. No past service benefit improvements have been implemented during the accounting period.

The actual return on scheme assets was £373,000 (2008- (£106,000)).

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

	2009	2008
	£000	£000
Deficit as at 1 January	-	(46)
Expected return on assets	448	251
Interest cost	(392)	(251)
Gain (loss) on settlements/curtailments	-	-
Actuarial gains (losses) (see below)	(343)	(155)
Employer contributions (net of charges)	138	218
Deferred tax credit/(charge)	42	(17)
Deficit as at 31 December	(107)	-

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2009

### 9. PENSION SCHEME (continued)

#### History of experience gains and losses

	2009	2008	2007	2006	2005
Difference between the expected and actual return on scheme assets					
Amount (£000)	(75)	(357)	(43)	(154)	372
Percentage of scheme assets	(1.0%)	(5.1%)	(0.6%)	(1.9%)	4.7%
Experience gains and losses on scheme liabilities					
Amount (£000)	44	18	(27)	(474)	443
Percentage of scheme liabilities	0.6%	0.3%	(0.3%)	(5.9%)	5.4%
Changes in assumptions underlying the present value of the scheme liabilities					
Amount (£000)	(928)	800	341	209	(873)
Percentage of scheme liabilities	(14.0%)	12.8%	4.2%	2.6%	(10.7%)
Reverse pension fund surplus not recognised in prior year (£000)	616	(616)	-	-	-
Percentage of scheme liabilities	9.3%	(9.9%)	-	-	-
Total amount recognised in statement of total recognised gains and losses					
Amount (£000)	(343)	(155)	(271)	(419)	(58)
Percentage of scheme liabilities	(4.6%)	(1.9%)	3.3%	(5.2%)	(0.6%)

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 2008 actuarial valuation, an increase was agreed under which the monthly contribution would in future be linked to the prevailing inflation rate until the deficit was 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 and Forester Holdings (Europe) 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 2009

### 10. TAXATION

	Technical account Long term business		Non-technical account	
	2009 £000	2008 £000	2009 £000	2008 £000
<b>Current tax</b>				
Tax attributable to shareholders' profits on long term business at effective rate of tax	176	288	-	-
UK corporation tax at 28% (2008 28.5%)			175	554
Group relief from non-technical account	(52)	(495)	-	-
Prior year adjustment	(144)	(6)	(144)	-
Total current tax	<u>(20)</u>	<u>(213)</u>	<u>31</u>	<u>554</u>
<b>Deferred tax</b>				
Origination/(reversal) of timing differences	-	(2,270)	54	(53)
Total deferred tax	<u>-</u>	<u>(2,270)</u>	<u>54</u>	<u>(53)</u>
<b>Total taxation charge / (credit)</b>	<u>(20)</u>	<u>(2,483)</u>	<u>85</u>	<u>501</u>

UK corporation tax in the technical account has been charged at rates between 20% and 28% in accordance with the rates applicable to life assurance companies

The current tax charge (2008-charge) to the non-technical account was lower than (2008-higher than) the standard rate of corporation tax in the UK (28%, 2008 28.5%) The differences are explained below

	2009 £000	2008 £000
<i>Current tax reconciliation</i>		
Surplus/(deficit) on ordinary activities before tax	<u>7,019</u>	<u>(11,320)</u>
Current tax at 28% (2008 28.5%)	1,965	(3,226)
<i>Effects of</i>		
Different tax basis for life assurance companies	54	(182)
Unrealised equity gains/(losses)	(748)	4,162
Deferred gains on fixed interest securities	(964)	1,416
Capital allowances in excess of depreciation	-	14
Net non-taxable gains less net disallowed expenditure and other timing differences	(36)	(1,395)
Non-taxable dividends received	(96)	(121)
Utilisation of losses on which deferred tax was not recognised	-	(108)
Adjustments to previous year	(144)	(6)
Total current tax charge (see above)	<u>31</u>	<u>554</u>



# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2009

### 11. INVESTMENT EXPENSES AND CHARGES

	Technical account Long term business	
	2009	2008
	£000	£000
Investment expenses	804	759
Losses on the realisation of investments	11,030	11,478
<b>Total</b>	<b>11,834</b>	<b>12,237</b>

### 12. INVESTMENTS- GROUP

#### a) Investments comprise:

	Current Value and Amortised Cost		Historical Cost	
	2009	2008	2009	2008
	£000	£000	£000	£000
<b>Other financial investments:</b>				
Shares and other variable yield Securities (at current value)	115,852	102,498	111,234	125,445
Debt securities at current value	10,814	10,616	10,990	10,732
Debt securities and other fixed income securities at amortised cost	137,526	135,020	141,436	138,523
<b>Total investments</b>	<b>264,192</b>	<b>248,134</b>	<b>263,660</b>	<b>274,700</b>

The current value of 'Other financial investments' is £275,188,000 (2008 £267,979,000)

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 shown at amortised cost are analysed below

	2009	2008
	£000	£000
Cost	141,436	138,523
Cumulative amortisation	(3,910)	(3,503)
<b>Amortised cost</b>	<b>137,526</b>	<b>135,020</b>
<b>Market value</b>	<b>148,522</b>	<b>154,376</b>

The redemption value of investments held at the year-end was £6 6 million (2008 £6 9 million) lower than the amortised cost

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2009

### 13. INVESTMENTS IN GROUP UNDERTAKINGS

	Group current Value/cost 2009 £000	2008 £000	Company at cost 2009 £000	2008 £000
Shares in group undertakings	-	-	12,900	13,150
Interest in associated undertakings	25	25	25	25
<b>Total</b>	<b>25</b>	<b>25</b>	<b>12,925</b>	<b>13,175</b>

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

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

	2009 £000	2008 £000
At beginning of the financial year	13,150	8,133
Sale of Forester Health	-	(2,483)
Allotment of additional shares in Forester Life	-	7,500
Reduction in capital of Forester Management Services	(250)	-
<b>At end of the financial year</b>	<b>12,900</b>	<b>13,150</b>

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%	Non-trading
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 2009

### 14. OTHER FINANCIAL INVESTMENTS- COMPANY

a) Investments comprise:

	Current Value		Historical Cost	
	2009 £000	2008 £000	2009 £000	2008 £000
<b>a) Other financial investments:</b>				
Shares and other variable yield securities (at current value)	2,905	3,580	2,956	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 £261,043,000 (2008 £202,439,000)

### 16. OTHER DEBTORS

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Amount due from ultimate parent company	-	300	132	300
Amounts owed by fellow subsidiaries	-	-	1,392	1,115
Taxation recoverable	448	699	-	-
Prepayments	485	410	485	410
Other debtors	61	870	61	830
<b>Total</b>	<b>944</b>	<b>2,279</b>	<b>2,070</b>	<b>2,655</b>

Other debtors in 2008 included a future payment due following the sale of Forester Health Limited

## Forester Holdings (Europe) Limited

### NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2009

#### 17. TANGIBLE FIXED ASSETS – GROUP and COMPANY

	<i>Leasehold buildings £000</i>	<i>Computer equipment £000</i>	<i>Furniture and equipment £000</i>	<i>Total £000</i>
<b>Cost</b>				
At beginning of year	962	588	422	1,972
Additions in year	30	128	25	183
Disposals in year	(51)	(123)	(26)	(200)
<b>At end of year</b>	<b>941</b>	<b>593</b>	<b>421</b>	<b>1,955</b>
<b>Depreciation</b>				
At beginning of year	945	504	357	1,806
Charge in year	10	84	33	127
Disposals in year	(35)	(123)	(23)	(181)
<b>At end of year</b>	<b>920</b>	<b>465</b>	<b>367</b>	<b>1,752</b>
Net book value at beginning of year	17	84	65	166
<b>Net book value at end of year</b>	<b>21</b>	<b>128</b>	<b>54</b>	<b>203</b>

#### 18. INTANGIBLE ASSETS – GROUP and COMPANY

	<i>Computer software £000</i>
<b>Cost</b>	
At beginning of year	-
Additions in year	1,330
<b>At end of year</b>	<b>1,330</b>
<b>Amortisation</b>	
At beginning of year	-
Charge in year	379
	<b>379</b>
Net book value at beginning of year	-
<b>Net book value at end of year</b>	<b>951</b>

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2009

### 19. CALLED UP SHARE CAPITAL

	2009 £000	2008 £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>

### 20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S RESERVES

#### a) Reconciliation- Group

	Called up share capital £000	Capital contribution £000	Profit and loss account £000	Total Group £000
At beginning of the financial year	20	29,189	12,385	41,594
Profit for the financial year	-	-	6,934	6,934
Release of capital reserve				-
Other recognised gains/(losses) less tax thereon			(247)	(247)
Dividends declared	-	-		
<b>At end of the financial year</b>	<u>20</u>	<u>29,189</u>	<u>19,072</u>	<u>48,281</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 2009

### 20. 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	10,516	15,536
Net profit for the financial year	-	-	1,253	1,253
Dividends receivable less declared	-	-	-	-
<b>At end of the financial year</b>	<b>20</b>	<b>5,000</b>	<b>11,769</b>	<b>16,789</b>

### 21. FUND FOR FUTURE APPROPRIATIONS

	2009 £000	2008 £000
At beginning of the financial year	26,434	54,077
Transfer to/(from) the technical account - long term business	13,188	(27,643)
<b>At end of the financial year</b>	<b>39,622</b>	<b>26,434</b>

### 22. TECHNICAL PROVISIONS

	Long term business provision 2009 £000	Technical provisions for linked liabilities 2009 £000	Claims outstanding 2009 £000	Total 2009 £000
<b>Gross amount</b>				
At beginning of the financial year	194,397	197,260	3,961	395,618
Movement from the long term business technical account	(2,367)	87,072	(31)	84,674
<b>At end of the financial year</b>	<b>192,030</b>	<b>284,332</b>	<b>3,930</b>	<b>480,292</b>

#### a) 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.

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2009

### 22. TECHNICAL PROVISIONS (continued)

#### b) 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 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>2009</b>	<b>2008</b>
<i>Life assurance</i>		
With Profit	2.25%	2.25%
Without Profit	2.50%	2.50%
<i>Pensions</i>		
Term assurance	3.25%	3.25%
Pensions in payment	3.50%	3.50%
<i>Permanent health insurance</i>	3.25%	3.25%
<b>Mortality table</b>	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.

#### c) 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.

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2009

### 22. TECHNICAL PROVISIONS (continued)

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

### 23. LONG TERM FUND

At 31 December 2009 the total amount of assets representing the long term fund valued in accordance with the Companies Act 2006 was £523,106,000 (2008 £425,614,000)

### 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

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



# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2009

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

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	2009 £m	2008 £m
Debt securities (at market value)		
Gilts	217.0	192.2
Other AAA rated	53.1	62.0
AA rated	19.1	11.2
Debtors	5.2	6.8
Deposits with banks	16.7	20.6
Accrued investment income	3.9	4.0
Total	<u>315.0</u>	<u>296.8</u>

As explained above, policy loans, which made up £4.1 million (2008: £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.

Substantially all the group's debtors were current at 31 December 2009 and 2008.

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 2009

### 24. 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

	2009 £m	2008 £m
<3 months or on demand	11.1	11.9
3-12 months	4.8	8.1
1-5 years	34.1	31.2
>5 years	145.8	114.1
Total	<u>195.8</u>	<u>165.3</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.

#### 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 21% (2008-10%) and fixed income yields increase by 0.88% (2008-0.742%). Changes in asset values for assets matching unit linked and ring-fenced business are borne by policyholders.

The effect of the price movements on the pretax profit for the year was

	2009 £m	2008 £m
<b>Interest rate risk</b>		
Fixed income securities	(0.9)	0.1
(minimal effect as assets backing liabilities are carried at amortised cost in Forester Life)		
<b>Other price risk</b>		
Equities	(8.3)	(3.2)

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2009

### 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 £1,903,000 (2008 £2,384,000)

### 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	138	150	288
Amounts paid during year	(84)	-	(84)
<b>At end of the financial year</b>	<b>54</b>	<b>150</b>	<b>204</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 this provision, the group and company had a potential deferred tax asset of £2,482,000 and £367,000 respectively (2008 £6,942,000 and £597,000) in respect of trading and capital losses. This has not been recognised in these financial statements because the timing of any recovery is considered to be very uncertain as it depends on the generation of realised capital gains.

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

	<b>Group</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Amount due to ultimate parent company	157	-	289	-
Amounts due to fellow subsidiaries	-	-	511	397
Taxation and social security	283	724	284	693
Other creditors including accruals	1,964	2,606	1,903	2,041
Dividend payable	-	1,900	-	1,900
<b>Total</b>	<b>2,404</b>	<b>5,230</b>	<b>2,987</b>	<b>5,031</b>

# Forester Holdings (Europe) Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2009

### 28. COMMITMENTS

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

	2009 £000	2008 £000
<b>Land and buildings</b>		
Operating Leases which expire		
In the second to fifth years inclusive	306	306
<b>Total</b>	<b>306</b>	<b>306</b>
<b>Other</b>		
Operating Leases which expire		
Within one year	71	35
In the second to fifth years inclusive	339	368
<b>Total</b>	<b>410</b>	<b>403</b>

The group and the company had capital commitments contracted for at 31 December 2009 of £811,000 (2008- £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 BHCA (Services) Limited and was a director of the company until 3 April 2009. During 2009 Forester Health Limited paid BHCA (Services) Limited £nil (2008: £NIL) in respect of premium collection services. At 31 December 2009 there were no amounts owed to BHCA (Services) Limited by the group (2008: £NIL).

### 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 2009

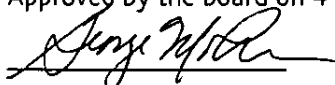
Parent Company profit and loss account (not forming part of the audited accounts)  
For the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Turnover		13,139	12,379
<b>Administrative expenses</b>			
Management expenses recoverable		(12,992)	(12,249)
<b>Operating profit</b>		147	130
Investment income including realised gains		160	1,158
Unrealised gains/ (losses) on investments		886	(937)
Losses on realisation of investments		(31)	(202)
Profit on disposal of subsidiary		-	1,775
Profit on ordinary activities before taxation		1,162	1,924
Tax (charge)/credit		91	(484)
<b>Profit for the financial year</b>		1,253	1,440
<b>Dividends receivable less (payable) from subsidiaries</b>		-	3,703
<b>Net profit for the financial year</b>		1,253	5,143

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

Approved by the Board on 4 March 2010 and signed on its behalf



George Mohacs