

EDUCATION AND EXAMINATION COMMITTEE
OF THE
SOCIETY OF ACTUARIES

COURSE 8 FINANCE STUDY NOTE

COURSE 8 FINANCE CASE STUDY

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Case Study

NADA Life

Course 8 Finance – Fall 2003

Introduction

North Atlantic Depository Association Life (NADA) is organized as a stock life insurance company in the United States. It is a direct insurance writer for three product lines - Individual Life sold via independent agents, GIC's for pension plans sold via brokers, and Group Long Term Disability also marketed through brokers.

Today, NADA has 376 employees at its home office. NADA also has 11 agency offices located in major cities across the United States. The agency offices are responsible for servicing approximately 1,150 independent life insurance agents and 8 brokerage firms that submit both individual and group business to NADA.

The current management team has successfully guided NADA through a period of growth and profitability. However, as with most organizations, NADA faces several challenges in the near term.

Background and Corporate History

NADA began operations in 1938 by selling life insurance to bank presidents. NADA has branched out since then. The company is located in a medium-sized city in the northeastern United States. There are five insurance companies in the city but NADA is the largest. Two regional banks are also located in this city. The city's population is largely white-collar, and the majority of the workforce is employed in insurance, banking, and at the city's two colleges.

NADA's growth was modest up until 1995. At that time, in order to encourage greater growth, NADA established an incentive compensation plan for senior management that included stock options. Growth and profits increased rapidly over the next five years.

This growth began to attract the interest of institutional investors, and in 1997 several large mutual funds began accumulating shares of NADA. In 1999, Del Boca Vista Bank of Italy, a large foreign bank, acquired 60% of the outstanding shares of NADA.

The shareholders of NADA at the end of 2002 consisted of the following:

- Del Boca Vista Bank of Italy – 60%,
- Institutional investors – 25%, (no one investor owns more than 3% of NADA's outstanding shares)
- General public – 10%,
- Senior officers of NADA – 5%.

In 2000, Del Boca Vista Bank acquired 100% of the outstanding shares of KramERICA Bank a medium-sized bank located in the Southwestern US.

At the end of 2000, NADA acquired the Canadian reinsurance operations of Festivus Insurance (Festivus), a UK company. NADA used the services of Lippman Actuarial Consulting, a firm specializing in appraisals of insurance companies.

NADA's current senior management team has been in place since 1998, with the exception of the Chief Executive Officer (CEO) who was hired in 2000. Senior management has a good relationship with its employees and its sales force. In 2002, the most recent reporting year, management exceeded target production volumes by 20%. For that, they were well compensated.

NADA's Board of Directors consists of 10 members each elected to one-year terms. Three of the members are Senior Managers with Del Boca Vista Bank. The other seven directors are independent. Two are CEOs for the regional banks located NADA's hometown, two are CFOs for other financial service companies and the remaining three are retired CEOs. The seven independent directors each own \$10,000 of NADA stock.

Management

W.K. Newman is the Chairman and CEO of NADA. Mr. Newman previously was director of new business for Del Boca Vista's US operations. Mr. Newman joined NADA in 2000, after Del Boca Vista's initial purchase of NADA's stock. Prior to joining Del Boca Vista's US operations, Mr. Newman spent considerable time in the area of mergers and acquisitions as well as investment banking, including some work in the property and casualty field. He holds a business degree and is an accountant by training.

Mr. Newman takes a direct interest in the accounting policies of NADA, and is considered by his Chief Financial Officer as somewhat aggressive in his views on the application of certain accounting policies. Mr. Newman is also a strong advocate of centralized control. Since his arrival at NADA, he has increased the level of reporting required of NADA's business units. Business managers are held accountable for the results their units produce.

Mr. Newman does not have a favorable view of rating agencies. He feels they are not in a position to comment on how the business should be run, nor do they necessarily understand how the company is managing risk. Mr. Newman, however, is tolerant of rating agencies, and appreciates that they are in a position to influence new business production through their ratings.

Mr. Newman has expressed a desire to expand NADA's business by acquisition rather than organic growth. He was largely responsible for the acquisition of Festivus Insurance in 2000.

Mr. Newman's senior management team includes:

- Elaine Benes - Senior Vice President and CFO,
- George Costanza - Senior Vice President, Underwriting and Marketing,
- Kenneth Kramer - Senior Vice President and Chief Actuary.

Elaine Benes is NADA's CFO. Coincidentally, she also worked at Del Boca Vista before joining NADA. However, she and Mr. Newman did not have prior working relationships. Ms. Benes is a trained accountant. She does rely quite heavily on the advice of NADA's Chief Actuary. Ms. Benes was responsible for the installation of NADA's current management information system. Under her guidance, reports are produced frequently and accurately.

George Costanza is the Senior Vice President in charge of underwriting and marketing. Mr. Costanza is responsible for new business production and all agency and broker-related matters. His direct reports include the Director of Agencies and the Director of Underwriting. Since his appointment in 1998, Mr. Costanza has substantially increased new business production for individual life insurance. Prior to his appointment to his current position, he was Director of Agencies. Mr. Costanza began his career at NADA as an underwriting trainee in 1981.

Kenneth Kramer is Senior Vice President and Chief Actuary. Mr. Kramer is a Fellow of the Society of Actuaries as well as a Fellow of the Canadian Institute of Actuaries. He also holds an MBA. Mr. Kramer has been with NADA since 1996, and in his current position since 1998. In addition to his corporate responsibilities as Chief Actuary, Mr. Kramer also is heavily involved in acquisitions of blocks of business. Mr. Kramer is viewed as conservative relative to his senior executive peers at NADA. He has, at times, had rather animated discussions with his colleagues as to the aggressive positions they occasionally take in their interpretation of accounting policies.

David Puddy is Chief Operating Officer of Festivus Insurance. Mr. Puddy is an actuary and Fellow of the Canadian Institute of Actuaries. He has been with Festivus since 1985, and in his current position since 1995. He was responsible for the acquisition of a closed block of annuity business.

Employee Compensation

Of NADA's 376 employees at head office, 364 are salaried employees while the remaining 12 are paid on an hourly basis. The hourly employees consist of the company's security staff and the company's librarian.

All salaried employees have, in addition to their regular salary, an incentive component as part of their total compensation. The incentive component is a percentage of salary, and is made up of individual objectives and company performance. For the employees below management level, the incentive compensation is a maximum of 15% of salary, and is weighted 75% individual performance and 25% company results. As an employee

becomes more senior within the organization, the incentive compensation component increases relative to base salary, and the component ascribed to company performance also increases

Each of NADA's 11 agencies is staffed by a branch manager and two administrative assistants. The branch managers are salaried, while the administrative assistants are contract employees paid on an hourly basis. The branch managers have a base salary of \$50,000, but also have an incentive component linked entirely to their branch's new business production. This percentage can range up to 400% of salary if new business, as measured by first year premium, reaches 200% of an assigned target

Products

Individual Life Insurance

NADA offers two main products: a variable life product with policyholder assets invested in separate funds, and a competitive term product.

Products are sold mostly through independent agents. NADA has a network of brokerage managers who recruit and develop independent agents. These agents are extremely loyal to their customers and have frequent contact with them

The term product features a level benefit to age 75. Premiums increase every 10 years. The current premium scale is guaranteed only for the first five years from date of issue. Subsequent premiums are guaranteed at 150% of the current premium scale. Growth in the term product has been rapid, due largely to NADA's desire to have its term plans rated in the top 10 with respect to price among its peer group of companies. As a result, NADA has been continuously repricing its product line.

There is some concern over recent lapse experience. Lapse rates in 2002 ran at 20%, as compared to the historic lapse rate of 10% experienced for most of the 1990's up to and including 2000. Replacement activity has been higher-than-expected. One possible explanation is that the brokers are more loyal to their customers than the company. Brokers shop the business to try to obtain a lower price for those customers

NADA's variable life product credits interest based on the earnings of separate fund of assets dedicated to this line. Policyholders can allocate their investments a money market fund, a bond fund or a stock fund in whatever proportions they choose. Investment income is credited at the fund earned rate less an investment management expense. The current management expense is 25 basis points for the money market fund, 150 basis points for the bond fund, and 250 basis points for the equity fund. This charge is based on the market value of the assets in the fund.

NADA offers minimum investment guarantees on its money market and bond funds. The minimum credited interest rate, before management expenses, is 2.00% for the money market fund and 3.50% for the bond fund. For the stock fund, there is no minimum

guarantee. NADA's variable life product allows policy loans up to 50% of the cash value. The rate charged on policy loans is variable, reset monthly and based upon the 5-year Treasury bond plus a spread of 75 basis points.

NADA reinsures the mortality risk on both its term and variable life products. Reinsurance is on an excess of retention basis; NADA's current retention is \$400,000 per life. This level of retention results in reinsurance on approximately 25% of NADA's business.

Mr. Costanza has inquired of Mr. Kramer as to the possibility of increasing NADA's retention. Mr. Costanza feels that that \$400,000 is too low, since historical experience has been very stable and has exhibited little variability

Guaranteed Investment Contracts (GIC's)

NADA issues GIC's to defined contribution pension plans. Sales are spread throughout the year. Most new sales are the result of marketing to brokers specializing in group benefits. These brokers are sensitive to the ratings of the insurance companies with whom they deal. The brokers have a responsibility to their clients, and, as a result, prefer to deal with companies that are rated AA or higher. They will work with stable insurance companies that are rated A in order to obtain higher returns for their clients. However, only a limited amount of business is placed with insurance companies that are rated A, and no business is placed with insurance companies that are rated below A. It is not uncommon for brokers to recommend that their clients move business away from insurance companies whose ratings are in decline, even if long-term relationships exist

NADA's GIC contracts are priced to be competitive within a defined peer group of companies. NADA goal is not necessarily to offer the best price, but to be in the top 25th percentile in terms of ranking

The contracts are offered on a five-year term basis, with automatic rollover at the end of five years unless prior notification is received. Policyholders can choose a one-year or five-year interest rate guarantee within the five-year term period. For the one-year interest guarantee option, NADA guarantees that future rates within the five year term period will not decrease more than 50 basis points below the interest rate offered in the first year of the contract.

The average duration of existing, in-force contracts is 3.8 years. Fully, 74% of the clients have elected the five-year interest guarantee option, and 26% have elected the one-year interest guarantee option. Currently, the five-year guarantee is crediting 4.00% and the one-year guarantee is crediting 2.25%.

NADA allows book value withdrawals in order to satisfy plan obligations to participants. These obligations vary by pension plan, but can include paying out participant accounts upon death, disability or the participant's termination of employment (except in the rare

situation of wide-spread terminations) Surrenders by the contract-holder (rather than the participants) are market value adjusted based on changes in interest rates.

Group Long Term Disability (LTD)

NADA sells group long-term disability coverage to large employers (500+ employees) Its competitive advantage has been high levels of customer service for both the employer and plan members.

The standard benefit provided to the covered employee for full disability is 60% of base salary beginning 90 days after the date of disability. Disability is defined as disabled from one's own occupation within the first two years of disability, and from any occupation thereafter. Benefits are payable to age 65. Benefits are increased for inflation as defined by the US Consumer Price Index (CPI), and have a minimum 2.0% per annum CPI adjustment.

For employees that are partially disabled but able to work for limited periods of time, the benefit is 60% of base salary, less 60% of earnings while partially disabled. NADA believes this option is effective in encouraging employees to return to work sooner than they might otherwise.

NADA's group long-term disability is sold through brokers who specialize in group benefits. These brokers solicit offers from many insurance companies for their clients. The brokers make recommendations to their clients that are based largely on price. Most brokers prefer to deal with companies that are rated AA or higher. Insurance companies that are rated below A are virtually excluded from this market.

Brokers are responsible for the negotiation of all premiums, but claims are paid directly to the covered member by the insurance company. Brokers are compensated based on a commission that is calculated as a percentage of the premium remitted. Most of this business goes out to bid annually. Clients tend to stay with the same broker but they are less loyal to the insurance carrier.

NADA currently reinsures its group long-term disability on an excess of \$5,000 of monthly income. This results in reinsurance of approximately 8% of NADA's group long-term disability business. This retention was changed in 1998. Prior to 1998, NADA reinsured amounts in excess of \$2,500 monthly income, or approximately 25% of its business.

NADA's current reinsurer has expressed concern with the profitability of NADA's long-term disability. Indeed, NADA's total group long term disability profits have been much lower than anticipated in the years 1999 and later. In addition, those earnings have tended to fluctuate from year to year.

An analysis of experience performed by Mr. Kramer found that actual to expected experience varied considerably. Results stratified by monthly income amounts, showed experience deteriorating as benefit amounts increased above \$2,000 per month.

Festivus Products

Festivus Insurance reinsures individual life and disability business in Canada. Also, Festivus assumed a small block of individual annuities, all of which are in payout mode. Festivus' Canadian operations are structured as a subsidiary of a foreign company.

Festivus' individual life business has historically been quite profitable. Mortality has shown continual improvement and management expects this to continue into the future. The results for the individual disability business have been somewhat cyclical, but on a 4-year moving average basis, the results have been acceptable, although not stellar.

Festivus' individual annuities represent a small block of inforce business that was acquired at the beginning of 1998. Because of general mortality improvement, and, perhaps, the mispricing of the business, this block has shown losses every year. Reserves had to be strengthened in 1999 and again in 2001.

The annuity block consists of approximately 1,000 policies. Nine hundred policies have annual incomes of \$20,000 or less, 27 policies have annual incomes between \$20,000 and \$100,000, while the balance have annual incomes of \$100,000 or higher. The reserve on the high-income policies represents 65% of the total annuity reserve.

Festivus Insurance has been writing new business in modest amounts and this new business has been relatively profitable. Festivus plans to grow capital organically, and has been able to meet those objectives with the exception of the years that reserve strengthening was required for the annuity block.

Festivus files statements on two reporting bases. It must file with the Canadian regulators for its operations since it is a Canadian company. Prior to its acquisition by NADA, it filed statements with the parent company on a UK reporting basis. Since the acquisition by NADA, it files statements on a US basis in addition to its Canadian statements. The 2002 closing balance sheets were prepared on a US valuation basis.

Investment Policy

In its general account, NADA invests in public bonds (including CMO's), private placement bonds, commercial mortgages, equities and real estate.

Target and actual investment allocations and asset qualities are outlined in the Appendix

Asset/Liability Management

Assets are segmented by line of business. Assets backing the company's GIC and group LTD liabilities as well as the individual term liabilities are held in the general account. Assets backing the variable life business are held in two segregated funds -- a bond fund and an equity fund.

Investments are managed externally using the investment management firm Pitt Investments LLP (PI). NADA's corporate actuarial department provides liability cash flows to PI on a semiannual basis.

In 2000, NADA provided PI duration targets of 3 for the GIC line, 4 for the group LTD line, and 7 for the individual life line (excluding the variable life line of business). Duration was calculated using Macaulay duration, and duration tolerances were expressed as +/- 0.25 years.

Change in Auditors

The accounting firm of Vande Lay & Associates (Vande Lay) was NADA's auditors since 1992. In early 2001, Vande Lay issued a letter to management expressing concern that certain of the company's accounting practices were too aggressive. During the year-end 2000 audit, Vande Lay determined that if the accounting practices were not modified it would issue a qualified opinion for the following year-end. The changes in accounting practices that were suggested by Vande Lay would have reduced NADA's projected year-end 2001 RBC ratio from 283.6% to 225%. Further, the projected RBC ratio at the end of 2002 would likely be reduced to 205%.

On July 16, 2001, the audit firm of Vande Lay was dismissed and replaced with the audit firm Von Nostrum & Associates (Von Nostrum).

J Peterman, PLC (Peterman), the main insurance company rating agency, noticed the change in audit firms, and scheduled a meeting with NADA's management in the early fall of 2001. After these discussions, Peterman put the rating of NADA, currently at AA, under review with negative implications. NADA was advised that there was potential for the rating to be reduced at the end of 2001.

The potential for a rating downgrade was seized upon by NADA's competitors and the financial media. As a result, NADA's 2001 fourth quarter sales dropped in all three lines and its stock price fell to half of the 2000 high. NADA hired a public relations firm in order to work on managing the negative implications of its ratings review.

Ratings

J Peterman, PLC (Peterman) is the pre-eminent rating agency for insurance companies. Peterman has been rating insurance companies and other financial institutions since 1974.

Investment analysts, who often do not thoroughly understand insurance companies, rely heavily on the ratings assigned by Peterman. Consequently, insurance companies manage their business carefully in order to maintain a favorable rating. Further, the ratings assigned by rating agencies affect the interest rate charged insurance companies on borrowed funds.

Peterman has established its own requirements for target capital, as well as its own benchmarks for minimum target capital ratios. Peterman uses a risk-based capital approach in determining minimum required capital levels. In addition, Peterman interviews management in order to perform a qualitative assessment of a company's operations.

Peterman uses the following rating categories:

- AAA – Excellent
- AA – Superior
- A – Good
- BBB – Fair
- BB – Under Watch
- B – Suspect
- C and lower – Speculative

NADA has stated it will maintain a minimum target capital ratio of 275%, based on the Peterman RBC formula.

NADA was rated AA at the end of 2002, but its rating is currently under review with negative implications. Peterman included the following rationale for placing NADA's rating under review:

“We have discussed with NADA the reason for the departure of NADA's previous auditors. The company disclosed that those auditors have expressed concern over its accounting policies. After more investigation, Peterman feels that the implications on current capital and future capital projections are negative.

NADA's targeted required capital ratio is at the lower end of what is required by Peterman to retain an AA rating. NADA's target capital ratio may impair its ability to renew existing business and attract new business.”

Mr. Newman, Ms. Benes, and Mr. Kramer have discussed their options on how to protect the company's rating with Peterman. Mr. Newman realizes that the rating of NADA impacts its ability to attract new business (especially in the highly sensitive brokerage market), and its ability to borrow funds at preferred rates from lending institutions. Corporate policy prohibits NADA from borrowing money from Del Boca Vista Bank. Mr. Newman is anxious to have NADA's rating reconfirmed at the AA level or higher.

Mr. Newman and Ms. Benes have communicated to Peterman, in advance of their annual review meeting, that the group LTD business accounts are being evaluated. Mr. Newman has informed Peterman that it has been agreed between himself and Mr. Costanza that 50% of group LTD premium will not be renewed in 2003 in an effort to increase the profitability of that line.

Business Strategy

NADA's current business plan projects future profits coming from lines of business which focus on wealth management, such as GIC's and to a lesser extent, the variable life business. NADA management is considering the development of a deferred annuity line in order to complement the GIC line of business. NADA feels they can accomplish this by leveraging Del Boca Vista Bank's ownership of KramERICA Bank and using it as a new distribution network.

NADA is contemplating the development of a career agency field force. NADA recognizes that independent agents are more loyal to the policyholders than to the companies with whom they deal. A career agency might create a greater bond between the company and its sales force.

Each Group Long Term Disability account is being reviewed. For each account that has been unprofitable for 3 of the last 4 years, Mr. Costanza has been instructed to either negotiate improved terms for NADA or to terminate the account. In addition, Mr. Kramer has been asked to review how reinsurance might be used to smooth the profit fluctuations.

Since the appointment of Mr. Newman, Del Boca Vista has indicated it will support NADA's future growth and development plans, subject to the company meeting appropriate and suitable rates of return. If NADA requires additional funds to support the company's growth plans, Del Boca Vista will increase its ownership in NADA by supplying additional capital through the purchase of treasury stock.

NADA has been notified by the law firm of J Chiles & Associates that it will be the subject of a class-action lawsuit concerning guarantees made under the variable life contract for policyholders who purchased contracts in the period 1992-1996. In addition, NADA is contesting a death claim of \$1 million dollars from the estate of Susan Biddle Ross. The company's position is that the claim is excluded under the contract's suicide exclusion.

The attached draft financial statements for year-end 2002 have been prepared based on accounting practices consistent with those in effect at 2000 year-end. The preliminary 2002 RBC ratio, based on these draft financial statements has been calculated using the rating agency's formula.

NADA Life Insurance Company

Balance Sheet

	Actual						Unaudited	Projected		
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Assets										
<u>Private Bonds</u>										
Investment grade	563.1	624.8	698.8	824.1	930.2	956.3	1,045.4	1,127.8	1,269.9	1,429.3
Below investment grade	219.5	279.2	334.5	379.7	378.4	422.6	409.6	489.9	561.4	642.0
subtotal	782.6	903.9	1,033.3	1,203.8	1,308.6	1,378.9	1,455.0	1,617.8	1,831.2	2,071.3
<u>Public Bonds</u>										
Investment grade	1,634.3	1,759.8	1,952.8	2,142.2	2,342.5	2,485.9	2,435.5	2,838.8	3,261.8	3,746.0
Below investment grade	328.1	459.9	532.2	616.3	584.9	653.0	771.3	814.5	946.1	1,095.8
CMO (investment grade)	307.9	361.1	418.6	463.9	512.2	502.6	574.7	644.7	747.9	866.8
subtotal	2,270.3	2,580.8	2,903.6	3,222.4	3,439.7	3,641.5	3,781.4	4,298.0	4,955.8	5,708.5
<u>Commercial Mortgages</u>										
Investment grade	331.3	394.7	445.1	499.7	531.6	555.5	628.5	703.8	810.1	936.7
Non-investment grade	33.6	38.9	38.0	41.5	52.3	51.6	61.8	55.8	58.9	61.1
subtotal	364.9	433.5	483.1	541.2	583.9	607.1	690.3	759.6	869.0	997.7
<u>Equities</u>										
	103.0	119.0	138.6	154.8	176.4	189.0	351.5	362.8	382.8	396.8
<u>Real Estate</u>										
	202.3	240.0	273.2	313.5	326.2	352.1	377.3	418.7	480.4	550.1
<u>Cash and Short Term</u>										
	11.2	2.4	5.4	7.6	6.5	9.4	7.7	8.0	8.4	8.7
<u>Premiums Due and Unpaid</u>										
	4.5	0.0	2.2	3.5	2.6	4.4	3.1	3.2	3.4	3.5
<u>Deferred Acquisition costs</u>										
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<u>Assets held in separate account</u>										
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<u>Other Assets</u>										
	13.4	14.6	19.0	23.4	22.9	29.1	27.0	15.9	16.8	17.4
Total Assets	3,752.3	4,294.3	4,858.4	5,470.1	5,866.8	6,211.5	6,693.4	7,484.0	8,547.9	9,754.1
Liabilities										
<u>Policy Liabilities - General Account</u>										
GICs	1,685.6	2,030.6	2,375.9	2,721.2	2,864.6	2,951.1	3,123.3	3,655.2	4,460.6	5,365.4
Individual Variable Life	286.2	312.2	324.1	336.8	348.8	362.6	374.5	442.0	535.5	651.0
Individual Term Insurance	225.9	241.3	232.6	269.7	276.4	264.0	267.1	314.4	352.1	394.3
Group LTD	658.8	738.7	839.0	974.2	1,070.3	1,180.2	1,383.4	1,477.8	1,517.0	1,599.0
subtotal	2,856.4	3,322.8	3,771.5	4,302.0	4,560.0	4,757.9	5,148.4	5,889.3	6,865.1	8,009.8
Other Liabilities - General Account										
	57.0	56.0	59.0	61.0	57.0	58.0	58.0	70.0	75.0	80.0
Separate Account										
	338.1	321.7	306.2	291.9	272.4	263.0	264.0	260.0	254.1	245.1
Total Liabilities	3,251.5	3,700.5	4,136.7	4,654.9	4,889.4	5,078.9	5,470.4	6,219.4	7,194.2	8,334.9
Shareholder Equity										
	895.9	971.5	1,086.9	1,168.1	1,306.8	1,453.6	1,545.1	1,594.7	1,682.8	1,744.3
Total Liabilities and Equity	4,147.4	4,671.9	5,223.6	5,823.0	6,196.2	6,532.4	7,015.4	7,814.0	8,877.0	10,079.2

J Peterman's Capital Requirements

Required Capital = square root of $\{C-2^2 + [C-1 + C-3]^2\}$

C-1 Risk % of asset value	Base	Non- Investment investment	
		grade	grade
Private Bonds		1 0%	7 5%
Public Bonds		0 2%	5 0%
CMO		0 2%	5 0%
Commercial Mortgages		3 0%	6 0%
Stock - equities - affiliates	30 0%	% owned x affiliate s RBC	
Real Estate	10 0%		
Cash and Short Term	0 3%		
Other assets	0 0%		

C-2 Risk

Life Insurance	0.8%	% of net amount at risk
Long Term Disability	25.0%	% of premiums
Long Term Disability	5 0%	% of reserves

C-3 Risk

Life Insurance	0 50%	% of reserves
GICs - all maturities	1 25%	% of reserves

	Actual						Unaudited	Projected		
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Required Capital - Liabilities										
C-1 Risk	58 8	74 8	85 3	100 4	102 3	107 7	116 2	132 0	154 3	180 4
C-2 Risk	261 8	282 1	321 5	368 2	419 2	457 3	495 0	530 8	586 5	651 3
C-3 Risk	23 6	28 1	32 5	37 0	38 9	40 0	42 2	49 5	60 2	72 3
Required Capital - Shareholder Equity										
C-1 Risk	46 7	53 5	62 7	67 6	75 0	83 8	135 4	138 9	146 6	151 9
C-2 Risk	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0
C-3 Risk	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0
Total										
C-1 Risk	105 5	128 3	148 0	168 0	177 3	191 6	251 5	270 9	300 9	332 3
C-2 Risk	261 8	282 1	321 5	368 2	419 2	457 3	495 0	530 8	586 5	651 3
C-3 Risk	23 6	28 1	32 5	37 0	38 9	40 0	42 2	49 5	60 2	72 3
Required formula	291 9	322 5	368 7	421 5	471 7	512 6	575 6	620 0	688 7	766 7
Available	895 9	971 5	1 086 9	1 168 1	1 306 8	1 453 6	1 545 1	1 594 7	1 682 8	1 744 3
Ratio	306 9%	301 2%	294 8%	277 1%	277 1%	283 6%	268 4%	257 2%	244 3%	227 5%

Income Statement

Line of Business (LOB): ALL

	Actual						Unaudited	Projected		
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Income Statement										
Premiums	375.7	398.8	487.2	541.4	603.3	631.9	728.2	580.9	647.7	722.3
Investment income	245.0	278.1	312.8	341.7	363.9	378.6	384.5	394.9	442.2	508.9
Total Revenue	620.7	677.0	800.1	883.1	967.3	1,010.4	1,112.7	975.7	1,090.0	1,231.2
Benefits	242.7	255.0	303.3	320.4	357.5	384.7	428.3	398.8	449.7	502.1
Surrenders	17.1	16.0	16.9	17.6	17.5	19.9	23.8	10.7	11.8	12.9
Increase in reserves	85.8	121.3	103.4	185.1	114.6	111.4	218.3	209.0	170.4	239.8
Interest Credited	95.1	117.3	137.6	158.1	174.6	182.6	187.2	201.6	231.0	279.2
Commissions	20.6	22.7	28.9	31.5	36.3	36.4	45.4	34.1	39.0	43.5
Change in DAC	-	-	-	-	-	-	-	-	-	-
Other Expenses	28.5	28.4	34.9	43.8	51.9	52.7	69.1	45.2	52.5	58.9
Total Expenses	489.9	560.7	625.0	756.4	752.5	787.7	971.9	899.4	954.4	1,136.6
Transfers to separate account	(22.7)	(17.5)	(16.5)	(15.4)	(20.5)	(10.5)	-	(5.0)	(7.0)	(10.0)
Income before tax	130.8	116.3	175.1	126.7	214.8	222.7	140.8	76.3	135.6	94.7
Income Tax	44.6	40.7	59.7	45.4	76.2	75.9	49.3	26.7	47.5	33.1
Net income after tax	86.3	75.6	115.4	81.2	138.7	146.8	91.5	49.6	88.1	61.5
Closing Shareholder Balance	895.9	971.5	1,086.9	1,168.1	1,306.8	1,453.6	1,545.1	1,594.7	1,682.8	1,744.3
Closing Reserve Balance	2,856.4	3,322.8	3,771.5	4,302.0	4,560.0	4,757.9	5,148.4	5,889.3	6,865.1	8,009.8
Assets										
<u>Private Bonds</u>										
Investment grade	563.1	624.8	698.8	824.1	930.2	956.3	1,045.4	1,127.8	1,269.9	1,429.3
Below investment grade	219.5	279.2	334.5	379.7	378.4	422.6	409.6	489.9	561.4	642.0
subtotal	782.6	903.9	1,033.3	1,203.8	1,308.6	1,378.9	1,455.0	1,617.8	1,831.2	2,071.3
<u>Public Bonds</u>										
Investment grade	1,634.3	1,759.8	1,952.8	2,142.2	2,342.5	2,485.9	2,435.5	2,838.8	3,261.8	3,746.0
Below investment grade	328.1	459.9	532.2	616.3	584.9	653.0	771.3	814.5	946.1	1,095.8
CMO (investment grade)	307.9	361.1	418.6	463.9	512.2	502.6	574.7	644.7	747.9	866.8
subtotal	2,270.3	2,580.8	2,903.6	3,222.4	3,439.7	3,641.5	3,781.4	4,298.0	4,955.8	5,708.5
<u>Commercial Mortgages</u>										
Investment grade	331.3	394.7	445.1	499.7	531.6	555.5	628.5	703.8	810.1	936.7
Non-investment grade	33.6	38.9	38.0	41.5	52.3	51.6	61.8	55.8	58.9	61.1
subtotal	364.9	433.5	483.1	541.2	583.9	607.1	690.3	759.6	869.0	997.7
<u>Equities</u>	103.0	119.0	138.6	154.8	176.4	189.0	351.5	362.8	382.8	396.8
<u>Real Estate</u>	202.3	240.0	273.2	313.5	326.2	352.1	377.3	418.7	480.4	550.1
<u>Cash and Short Term</u>	11.2	2.4	5.4	7.6	6.5	9.4	7.7	8.0	8.4	8.7
<u>Premiums Due and Unpaid</u>	4.5	-	2.2	3.5	2.6	4.4	3.1	3.2	3.4	3.5
<u>Deferred Acquisition costs</u>	-	-	-	-	-	-	-	-	-	-
<u>Assets held in separate account</u>	-	-	-	-	-	-	-	-	-	-
<u>Other Assets</u>	13.4	14.6	19.0	23.4	22.9	29.1	27.0	15.9	16.8	17.4
Total Assets	3,752.3	4,294.3	4,858.4	5,470.1	5,866.8	6,211.5	6,693.4	7,484.0	8,547.9	9,754.1
C-1 Risk	105.5	128.3	148.0	168.0	177.3	191.6	251.5	270.9	300.9	332.3
C-2 Risk	261.8	282.1	321.5	368.2	419.2	457.3	495.0	530.8	586.5	651.3
C-3 Risk	23.6	28.1	32.5	37.0	38.9	40.0	42.2	49.5	60.2	72.3

Income Statement
LOB: Shareholders'

	Actual						Unaudited	Projected		
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Income Statement										
Premiums	-	-	-	-	-	-	-	-	-	-
Investment income	58.9	63.2	67.2	70.9	71.4	75.3	73.0	61.8	63.8	67.3
Total Revenue	58.9	63.2	67.2	70.9	71.4	75.3	73.0	61.8	63.8	67.3
Expenses										
Benefits	-	-	-	-	-	-	-	-	-	-
Surrenders	-	-	-	-	-	-	-	-	-	-
Increase in Reserves	-	-	-	-	-	-	-	-	-	-
Interest Credited	-	-	-	-	-	-	-	-	-	-
Commissions	-	-	-	-	-	-	-	-	-	-
Change in DAC	-	-	-	-	-	-	-	-	-	-
Other Expenses	-	-	-	-	-	-	-	-	-	-
Total Expenses	-	-	-	-	-	-	-	-	-	-
Transfer to separate account	-	-	-	-	-	-	-	-	-	-
Income before tax	58.9	63.2	67.2	70.9	71.4	75.3	73.0	61.8	63.8	67.3
Income Tax	20.0	22.1	22.9	25.5	25.3	25.6	25.5	21.6	22.3	23.6
Net income after tax	38.9	41.1	44.4	45.4	46.0	49.7	47.4	40.2	41.5	43.8
Balance Sheet										
Inforce Volume	-	-	-	-	-	-	-	-	-	-
Opening Shareholder Balance	809.6	895.9	971.5	1,086.9	1,168.1	1,306.8	1,453.6	1,545.1	1,594.7	1,682.8
Closing Shareholder Balance	895.9	971.5	1,086.9	1,168.1	1,306.8	1,453.6	1,545.1	1,594.7	1,682.8	1,744.3
Investment Performance										
Investment income rate	7.28%	7.06%	6.92%	6.52%	6.11%	5.76%	5.02%	4.00%	4.00%	4.00%
Tax rate	34.0%	35.0%	34.0%	36.0%	35.5%	34.0%	35.0%	35.0%	35.0%	35.0%
Assets										
<u>Private Bonds</u>										
Investment grade	188.1	203.5	225.5	257.0	336.5	306.7	343.8	334.9	353.4	366.3
Below investment grade	64.9	76.7	89.7	88.2	91.5	109.7	104.3	104.5	110.2	114.3
subtotal	253.1	280.3	315.2	345.2	428.0	416.4	448.1	439.3	463.6	480.6
<u>Public Bonds</u>										
Investment grade	356.1	388.6	404.9	420.5	450.8	529.1	378.5	446.5	471.2	488.4
Below investment grade	52.0	53.4	58.7	81.8	60.8	90.8	112.0	112.4	118.6	123.0
CMO (investment grade)	31.4	31.6	43.5	43.8	58.8	61.8	69.5	59.8	63.1	65.4
subtotal	439.4	473.6	507.0	546.1	570.4	681.7	560.1	618.7	652.9	676.8
<u>Commercial Mortgages</u>										
Investment grade	1.8	1.5	1.6	2.3	2.0	2.9	2.3	3.2	3.4	3.5
Non-investment grade	33.6	38.9	38.0	41.5	52.3	51.6	61.8	55.8	58.9	61.1
subtotal	35.4	40.3	39.7	43.8	54.2	54.5	64.1	59.0	62.3	64.5
<u>Equities</u>										
	103.0	119.0	138.6	154.8	176.4	189.0	351.5	362.8	382.8	396.8
<u>Real Estate</u>										
	35.8	41.3	59.8	43.8	45.7	69.0	83.4	87.7	92.6	95.9
<u>Cash and Short Term</u>										
	11.2	2.4	5.4	7.6	6.5	9.4	7.7	8.0	8.4	8.7
<u>Premiums Due and Unpaid</u>										
	4.5	-	2.2	3.5	2.6	4.4	3.1	3.2	3.4	3.5
<u>Deferred Acquisition costs</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Assets held in separate account</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Other Assets</u>										
	13.4	14.6	19.0	23.4	22.9	29.1	27.0	15.9	16.8	17.4
Total Assets	895.9	971.5	1,086.9	1,168.1	1,306.8	1,453.6	1,545.1	1,594.7	1,682.8	1,744.3
Risk										
C-1 Risk	46.7	53.5	62.7	67.6	75.0	83.8	135.4	138.9	146.6	151.9
C-2 Risk	-	-	-	-	-	-	-	-	-	-
C-3 Risk	-	-	-	-	-	-	-	-	-	-

Income Statement
LOB: GIC

	Actual						Unaudited	Projected		
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Income Statement										
Premiums	-	-	-	-	-	-	-	-	-	-
Investment income	105.4	129.4	152.1	175.8	193.0	201.2	206.0	222.0	256.3	310.3
Total Revenue	105.4	129.4	152.1	175.8	193.0	201.2	206.0	222.0	256.3	310.3
Benefits	-	-	-	-	-	-	-	-	-	-
Surrenders	-	-	-	-	-	-	-	-	-	-
Increase in Reserves	-	-	-	-	-	-	-	-	-	-
Interest Credited	95.1	117.3	137.6	158.1	174.6	182.6	187.2	201.6	231.0	279.2
Commissions	-	-	-	-	-	-	-	-	-	-
Change in DAC	-	-	-	-	-	-	-	-	-	-
Other Expenses	0.8	1.0	1.1	1.3	1.4	1.5	1.5	1.7	1.9	2.3
Total Expenses	95.9	118.3	138.7	159.4	176.0	184.1	188.8	203.2	232.9	281.6
Transfer to separate account	-	-	-	-	-	-	-	-	-	-
Income before tax	9.5	11.1	13.4	16.5	17.0	17.1	17.3	18.7	23.3	28.7
Income Tax	3.3	3.9	4.7	5.8	5.9	6.0	6.1	6.6	8.2	10.0
Net income after tax	6.2	7.2	8.7	10.7	11.0	11.1	11.2	12.2	15.2	18.7
Inforce premium	-	-	-	-	-	-	-	-	-	-
Opening Reserve	1,350.4	1,685.6	2,030.6	2,375.9	2,721.2	2,864.6	2,951.1	3,123.3	3,655.2	4,460.6
Closing Reserve	1,685.6	2,030.6	2,375.9	2,721.2	2,864.6	2,951.1	3,123.3	3,655.2	4,460.6	5,365.4
Opening DAC	-	-	-	-	-	-	-	-	-	-
Closing DAC	-	-	-	-	-	-	-	-	-	-
Investment income rate	7.17%	7.19%	7.12%	7.12%	7.13%	7.14%	7.00%	6.75%	6.50%	6.50%
Tax rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
New Business	401.0	430.5	460.7	499.8	350.1	360.0	380.0	600.0	700.0	750.0
Rollovers	300.0	320.0	340.0	360.0	381.4	456.1	592.6	809.0	1,130.8	1,119.5
Maturities	461.0	522.8	593.0	672.5	762.7	912.2	987.6	1,078.6	1,256.5	1,243.9
Assets										
<u>Private Bonds</u>										
Investment grade	202.3	223.4	273.2	312.9	329.4	354.1	390.4	438.6	535.3	643.8
Below investment grade	84.3	111.7	142.6	176.9	171.9	191.8	171.8	255.9	312.2	375.6
subtotal	286.5	335.0	415.8	489.8	501.3	546.0	562.2	694.5	847.5	1,019.4
<u>Public Bonds</u>										
Investment grade	758.5	893.5	1,009.7	1,142.9	1,217.4	1,224.7	1,296.2	1,498.6	1,828.8	2,199.8
Below investment grade	185.4	264.0	320.7	353.8	358.1	383.6	437.3	493.4	602.2	724.3
CMO (investment grade)	177.0	213.2	249.5	285.7	300.8	309.9	327.9	383.8	468.4	563.4
subtotal	1,120.9	1,370.6	1,579.9	1,782.4	1,876.3	1,918.2	2,061.3	2,375.9	2,899.4	3,487.5
<u>Commercial Mortgages</u>										
Investment grade	168.6	192.9	237.6	272.1	300.8	295.1	312.3	365.5	446.1	536.5
Non-investment grade	-	-	-	-	-	-	-	-	-	-
subtotal	168.6	192.9	237.6	272.1	300.8	295.1	312.3	365.5	446.1	536.5
<u>Equities</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Real Estate</u>										
	109.6	132.0	142.6	176.9	186.2	191.8	187.4	219.3	267.6	321.9
<u>Cash and Short Term</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Premiums Due and Unpaid</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Deferred Acquisition costs</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Assets held in separate account</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Other Assets</u>										
	-	-	-	-	-	-	-	-	-	-
Total Assets	1,685.6	2,030.6	2,375.9	2,721.2	2,864.6	2,951.1	3,123.3	3,655.2	4,460.6	5,365.4
C-1 Risk	35.5	45.0	53.4	62.8	64.8	68.2	70.0	84.9	103.6	124.6
C-2 Risk	-	-	-	-	-	-	-	-	-	-
C-3 Risk	21.1	25.4	29.7	34.0	35.8	36.9	39.0	45.7	55.8	67.1

Income Statement
LOB: Variable Life

	Actual						Unaudited	Projected		
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Income Statement										
Premiums	85.3	88.7	91.4	100.5	109.6	113.9	118.8	142.5	156.8	172.5
Investment Income	19.4	21.6	22.6	22.1	21.4	21.6	21.0	21.1	24.8	29.8
Total Revenue	104.7	110.3	114.0	122.6	131.0	135.5	139.8	163.6	181.6	202.3
Expenses										
Benefits	35.8	39.0	40.5	42.1	43.6	45.3	46.8	55.3	59.5	65.1
Surrenders	17.1	16.0	16.9	17.6	17.5	19.9	23.8	10.7	11.8	12.9
Increase in Reserves	32.4	26.0	11.9	12.7	12.0	13.9	11.9	67.5	93.5	115.5
Interest Credited	-	-	-	-	-	-	-	-	-	-
Commissions	3.0	3.1	3.0	3.3	3.8	3.7	3.9	5.0	5.5	6.0
Change in DAC	-	-	-	-	-	-	-	-	-	-
Other Expenses	0.8	0.9	0.9	1.0	1.0	0.1	1.2	1.8	2.0	2.2
Total Expenses	89.0	85.0	73.2	76.6	77.9	82.9	87.5	140.2	172.2	201.7
Transfer to separate account	(22.7)	(17.5)	(16.5)	(15.4)	(20.5)	(10.5)	-	(5.0)	(7.0)	(10.0)
Income before tax	15.7	25.3	40.9	46.0	53.1	52.6	52.2	23.5	9.4	0.5
Income Tax	5.3	8.9	13.9	16.6	18.8	17.9	18.3	8.2	3.3	0.2
Net income after tax	10.4	16.5	27.0	29.4	34.2	34.7	34.0	15.2	6.1	0.4
Reserves										
Inforce Volume	596.2	650.4	675.2	701.7	726.6	755.5	780.3	850.0	850.0	930.0
Opening Reserve	253.8	286.2	312.2	324.1	336.8	348.8	362.6	374.5	442.0	535.5
Closing Reserve	288.2	312.2	324.1	336.8	348.8	362.6	374.5	442.0	535.5	651.0
Separate Account end of year	338.1	321.7	306.2	291.9	272.4	263.0	264.0	260.0	254.1	245.1
Investment income rate	7.23%	7.18%	6.92%	6.46%	5.97%	5.81%	5.46%	5.15%	5.15%	5.15%
Tax rate	34.0%	35.0%	34.0%	36.0%	35.5%	34.0%	35.0%	35.0%	35.0%	35.0%
Assets										
<u>Private Bonds</u>										
Investment grade	42.2	48.4	47.0	54.7	54.9	59.8	58.1	70.7	85.7	104.2
Below investment grade	17.2	20.3	21.9	24.4	26.2	28.1	26.2	22.1	26.8	32.6
subtotal	59.4	68.7	68.9	79.2	81.1	87.9	84.3	92.8	112.5	136.7
<u>Public Bonds</u>										
Investment grade	121.6	99.9	110.2	106.1	111.6	119.7	117.0	176.8	214.2	260.4
Below investment grade	22.2	44.5	45.4	50.5	54.1	50.8	54.3	44.2	53.6	65.1
CMO (investment grade)	24.3	28.1	29.2	28.6	31.4	26.3	32.8	39.8	48.2	58.6
subtotal	168.1	172.5	184.7	185.2	197.1	196.7	204.1	260.8	315.9	384.1
<u>Commercial Mortgages</u>										
Investment grade	39.3	48.4	47.8	48.0	47.1	51.7	58.1	66.3	80.3	97.7
Non-investment grade	-	-	-	-	-	-	-	-	-	-
subtotal	39.3	48.4	47.8	48.0	47.1	51.7	58.1	66.3	80.3	97.7
<u>Equities</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Real Estate</u>										
	19.3	22.6	22.7	24.4	23.5	26.3	28.1	22.1	26.8	32.6
<u>Cash and Short Term</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Premiums Due and Unpaid</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Deferred Acquisition costs</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Assets held in separate account</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Other Assets</u>										
	-	-	-	-	-	-	-	-	-	-
Total Assets	286.2	312.2	324.1	336.8	348.8	362.6	374.5	442.0	535.5	651.0
C-1 Risk	6.2	8.2	8.4	9.1	9.3	9.7	10.1	9.2	11.2	13.6
C-2 Risk	2.5	2.7	2.8	2.9	3.0	3.1	3.2	3.3	2.5	2.2
C-3 Risk	1.4	1.6	1.6	1.7	1.7	1.8	1.9	2.2	2.7	3.3

Income Statement

LOB: Term

	Actual						Unaudited	Projected		
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Income Statement										
Premiums	100.4	104.9	108.6	124.9	139.9	135.7	131.6	161.2	180.6	202.2
Investment Income	14.4	16.9	17.4	16.3	17.8	17.1	15.1	14.2	16.5	18.5
Total Revenue	114.8	121.8	126.0	141.2	157.7	152.8	146.7	175.5	197.1	220.7
Expenses										
Benefits	68.3	68.2	76.0	82.4	90.9	90.9	94.8	108.0	126.4	141.6
Surrenders	-	-	-	-	-	-	-	-	-	-
Increase in Reserves	34.7	15.4	(8.7)	37.1	6.6	(12.4)	3.1	47.2	37.7	42.2
Interest Credited	-	-	-	-	-	-	-	-	-	-
Commissions	4.8	5.5	5.4	6.2	7.3	7.5	7.6	9.7	11.7	13.1
Change in DAC	-	-	-	-	-	-	-	-	-	-
Other Expenses	5.5	5.0	4.9	5.9	7.0	7.1	7.6	8.1	10.8	12.1
Total Expenses	113.2	94.1	77.6	131.7	111.9	93.1	113.0	173.0	186.7	209.1
Transfer to separate account	-	-	-	-	-	-	-	-	-	-
Income before tax	1.6	27.7	48.3	9.5	45.8	59.7	33.7	2.5	10.4	11.6
Income Tax	0.5	9.7	16.4	3.4	16.3	20.3	11.8	0.9	3.6	4.1
Net income after tax	1.1	18.0	31.9	6.1	29.5	39.4	21.9	1.6	6.7	7.6
Reserves										
inforce Volume	22,590.0	24,131.1	25,844.5	29,970.9	34,546.4	37,715.7	38,163.5	48,362.3	54,185.8	60,665.7
Opening Reserve	191.3	225.9	241.3	232.6	269.7	276.4	264.0	267.1	314.4	352.1
Closing Reserve	225.9	241.3	232.6	269.7	276.4	264.0	267.1	314.4	352.1	394.3
Opening DAC	-	-	-	-	-	-	-	-	-	-
Closing DAC	-	-	-	-	-	-	-	-	-	-
Investment income rate	7.13%	7.06%	6.88%	6.59%	6.21%	5.87%	5.51%	5.00%	5.00%	5.00%
Tax rate	34.0%	35.0%	34.0%	36.0%	35.5%	34.0%	35.0%	35.0%	35.0%	35.0%
Assets										
<u>Private Bonds</u>										
Investment grade	33.3	35.0	31.4	41.1	40.8	40.9	38.7	47.2	52.8	59.1
Below investment grade	13.6	16.9	17.4	19.6	19.3	19.1	17.4	18.9	21.1	23.7
subtotal	46.9	51.9	48.8	60.7	60.1	60.1	56.1	66.0	73.9	82.8
<u>Public Bonds</u>										
Investment grade	101.7	95.3	92.5	102.5	107.8	104.9	104.2	125.7	140.8	157.7
Below investment grade	17.5	24.1	25.6	30.3	31.8	30.4	29.4	31.4	35.2	39.4
CMO (investment grade)	19.2	21.7	20.9	22.9	24.9	19.1	23.4	28.3	31.7	35.5
subtotal	138.4	141.2	139.0	155.8	164.4	154.4	156.9	185.5	207.7	232.7
<u>Commercial Mortgages</u>										
Investment grade	31.1	37.4	34.3	38.4	37.3	37.6	41.4	47.2	52.8	59.1
Non-investment grade	-	-	-	-	-	-	-	-	-	-
subtotal	31.1	37.4	34.3	38.4	37.3	37.6	41.4	47.2	52.8	59.1
<u>Equities</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Real Estate</u>										
	9.6	10.9	10.5	14.8	14.5	11.9	12.7	15.7	17.6	19.7
<u>Cash and Short Term</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Premiums Due and Unpaid</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Deferred Acquisition costs</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Assets held in separate account</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Other Assets</u>										
	-	-	-	-	-	-	-	-	-	-
Total Assets	225.9	241.3	232.6	269.7	276.4	264.0	267.1	314.4	352.1	394.3
C-1 Risk	4.4	5.3	5.2	6.3	6.3	5.9	5.9	6.8	7.6	8.5
C-2 Risk	178.9	191.1	204.9	237.6	274.2	299.6	303.2	384.4	430.5	482.2
C-3 Risk	1.1	1.2	1.2	1.3	1.4	1.3	1.3	1.6	1.8	2.0

Income Statement
LOB: LTD

	Actual						Unaudited	Projected		
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Income Statement										
Premiums	190 0	205 2	287 3	316 0	353 9	382 2	477 8	277 1	310 4	347 6
Investment Income	46 8	47 0	53 5	56 6	60 4	63 4	69 3	75 8	80 9	83 0
Total Revenue	236 8	252 2	340 8	372 6	414 3	445 6	547 1	352 9	391 3	430 7
Expenses										
Benefits	138 7	147 7	186 7	195 9	223 0	248 5	286 7	235 6	263 8	295 5
Surrenders	-	-	-	-	-	-	-	-	-	-
Increase in Reserves	18 8	79 9	100 2	135 3	96 1	109 9	203 2	94 4	39 2	82 0
Interest Credited	-	-	-	-	-	-	-	-	-	-
Commissions	12 8	14 1	20 5	22 0	25 1	25 2	33 9	19 4	21 7	24 3
Change in DAC	-	-	-	-	-	-	-	-	-	-
Other Expenses	21 4	21 5	28 0	35 6	42 5	44 0	58 8	33 7	37 8	42 3
Total Expenses	191 7	263 2	335 5	388 7	386 6	427 5	582 6	383 1	362 5	444 2
Transfer to separate account	-	-	-	-	-	-	-	-	-	-
Income before tax	45 1	(11 0)	5 3	(16 1)	27 6	18 1	(35 5)	(30 2)	28 8	(13 5)
Income Tax	15 3	(3 9)	1 8	(5 8)	9 8	6 2	(12 4)	(10 6)	10 1	(4 7)
Net income after tax	29 8	(7 2)	3 5	(10 3)	17 8	11 9	(23 1)	(19 6)	18 7	(8 8)
Reserves										
Inforce premium	190 0	205 2	287 3	316 0	353 9	382 2	477 8	277 1	310 4	347 6
Opening Reserve	640 0	658 8	738 7	839 0	974 2	1 070 3	1 180 2	1 383 4	1 477 8	1 517 0
Closing Reserve	658 8	738 7	839 0	974 2	1 070 3	1 180 2	1 383 4	1 477 8	1 517 0	1 599 0
Opening DAC	-	-	-	-	-	-	-	-	-	-
Closing DAC	-	-	-	-	-	-	-	-	-	-
Investment income rate	7 22%	7 02%	7 00%	6 50%	6 00%	5 75%	5 64%	5 50%	5 50%	5 50%
Tax rate	34 0%	35 0%	34 0%	36 0%	35 5%	34 0%	35 0%	35 0%	35 0%	35 0%
Assets										
<u>Private Bonds</u>										
Investment grade	97 2	114 5	121 7	158 3	168 6	194 7	214 4	236 4	242 7	255 8
Below investment grade	39 5	53 6	62 9	70 6	69 6	73 8	89 9	88 7	91 0	95 9
subtotal	136 7	168 1	184 6	228 9	238 1	268 5	304 4	325 1	333 7	351 8
<u>Public Bonds</u>										
Investment grade	296 5	282 6	335 6	370 2	454 9	507 5	539 5	591 1	606 8	639 6
Below investment grade	51 1	73 9	81 8	99 9	80 3	97 4	138 3	133 0	136 5	143 9
CMO (investment grade)	56 0	66 5	75 5	82 8	96 3	85 6	121 0	133 0	136 5	143 9
subtotal	403 5	422 9	492 9	552 9	631 5	690 4	798 9	857 1	879 9	927 4
<u>Commercial Mortgages</u>										
Investment grade	90 6	114 5	123 7	138 8	144 5	168 2	214 4	221 7	227 5	239 9
Non-investment grade	-	-	-	-	-	-	-	-	-	-
subtotal	90 6	114 5	123 7	138 8	144 5	168 2	214 4	221 7	227 5	239 9
<u>Equities</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Real Estate</u>										
	28 0	33 2	37 8	53 6	56 2	53 1	65 7	73 9	75 8	80 0
<u>Cash and Short Term</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Premiums Due and Unpaid</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Deferred Acquisition costs</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Assets held in separate account</u>										
	-	-	-	-	-	-	-	-	-	-
<u>Other Assets</u>										
	-	-	-	-	-	-	-	-	-	-
Total Assets	658 8	738 7	839 0	974 2	1 070 3	1 180 2	1 383 4	1 477 8	1 517 0	1 599 0
C-1 Risk	12 7	16 3	18 3	22 3	22 0	23 9	30 1	31 2	32 0	33 7
C-2 Risk	80 4	88 2	113 8	127 7	142 0	154 6	188 6	143 2	153 4	166 9
C-3 Risk	-	-	-	-	-	-	-	-	-	-

Target Investment Guidelines, and Actual Investment Allocation - 2002 Year End

	Individual Life		GICs		Investment Guidelines		Target Guidelines		Investment Guidelines		Group Health		Actual excl surplus	Total Company
	Investment Guidelines		Investment Guidelines		Investment Guidelines		Investment Guidelines		Investment Guidelines		Investment Guidelines			
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum		
Bonds - Public	20%	60%	40%	80%	65%	75%	30%	60%	50%	60%	50%	60%	77%	59%
Bonds - Private Placements	0%	30%	0%	20%	10%	15%	0%	30%	15%	30%	15%	20%	2%	22%
Commercial Mortgages	0%	15%	0%	20%	5%	10%	0%	15%	10%	15%	10%	15%	13%	10%
Equities	0%	5%	0%	20%	5%	10%	0%	5%	0%	5%	0%	5%	0%	3%
Real estate	0%	10%	0%	0%	0%	0%	0%	10%	0%	10%	0%	5%	7%	6%
Total													100%	100%

Investment Guidelines: The minimum and maximum permissible holdings established in the company's investment guidelines
Target Guidelines: The range of holdings that are revised annually; they are set based on cash flow testing, the company's business plan, and perceived liquidity needs

Target Investment Quality
 Maximum % of assets below
 investment grade

Bonds - Public	20.0%
Bonds - Private Placements	25.0%
Commercial Mortgages	20.0%