

MAY 2008

EXAM AFE

**Advanced Finance and
Enterprise Risk
Management**

CASE STUDY

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Advanced Finance/ERM

Case Study

Spring 2008

Zoolander Life

It's your life!

From the desk of Charley Pigeon

To: You, the New CFO

Welcome to the Zoolander team. Tomas Lyon, our CEO, is out of the country for a few months but asked me to put together some background information for you. I'm attaching a number of documents that I found in your predecessor's files; hopefully this will keep you busy for a while.

I think that you'll find your time here both challenging and rewarding and I look forward to working with you.

Cheers,

Charley

From the desk of
R. Tomas Lyon, IV

March 21, 2008

Re New CFO

Congratulations. As I write this, you have yet to be hired but I need to welcome you in advance as I am returning to spend the remainder of March and the months of April and May at my villa in Tuscany. You will have been through a rigorous screening process. I have every confidence that the search committee has picked the right person for this important position. I am sure you will do a fine job as Zoolander Life's new Chief Financial Officer.

Anyway, you have a lot of work to do. Your predecessor, Mr. A. Hugh Dodo, left to pursue other opportunities at a critical time for Zoolander Life. My executive assistant, Mr. Charley Pigeon, will help you get settled in your new position.

Ideally we would have all the issues that you will face as our new CFO laid out similarly to a fancy case study. Well, the real world is not that neat. Charley has been instructed to pull together memos, e-mails and other documents to help you familiarize yourself with the company and the issues in the Finance Department.

This job will be a real test. I am counting on you to learn quickly and to make decisions that will put our company on a firm financial footing.

In an emergency situation, Pigeon knows how to contact me.

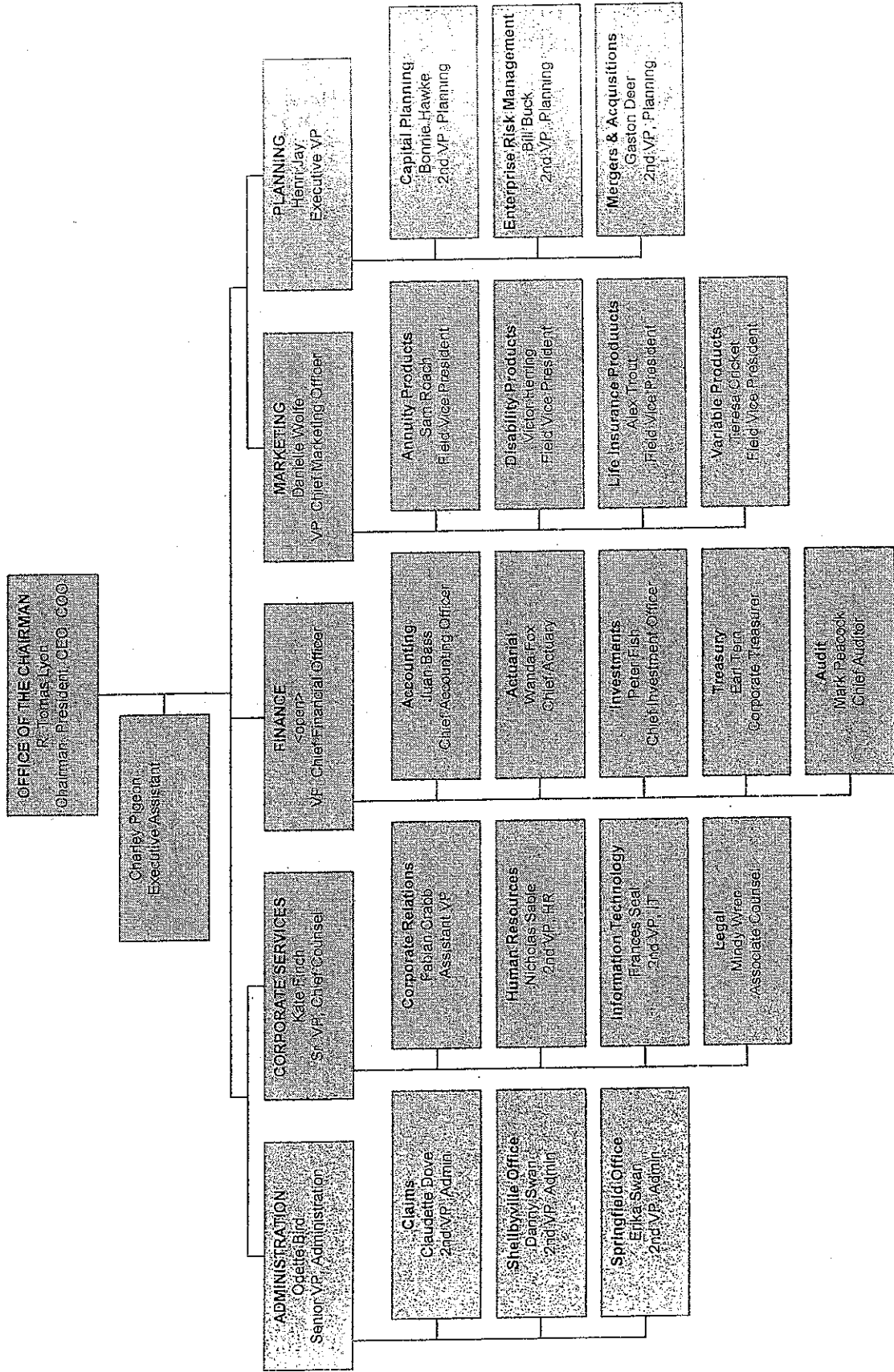
Very Sincerely

R. Tomas Lyon, IV
Chairman, President, CEO and COO
Zoolander Life Insurance Company

Cc Charley Pigeon

Zolander Life Insurance Company

as of March 19, 2008



Zolander Life Insurance Company

Mission, Vision, Values and Ethics

Mission

The mission of Zolander Life is to be a high quality financial services company. To that end, we offer a range of insurance and financial services and products to meet the needs of our customers. We aim to provide the highest quality service to our customers. We maintain high ratings, financial strength and competitively priced products.

We respect our employees. We offer challenging career opportunities and personal development for all staff members. Our goal is to enable everyone to contribute to their fullest potential. We promote open and cooperative relationships among employees and customers.

In all that we do, we exemplify the highest standards of business ethics and personal integrity, and recognize our corporate obligation to the social and economic well-being of our community.

Vision

The Company's vision is to seek a balance among our four operations: GICs, Variable Annuities, Term Life Insurance, and Disability Insurance. Each line will be responsible for at least 20% of our income. Our Annuity operations will offer outstanding investment performance. We seek to be an innovator in the Term Life Insurance field and the Disability Insurance arena. Consistent with Zolander Life's "2013 Plan," our goal is to have \$5 Billion of Surplus by the year 2013.

Values

We are in business to serve customers. Our goal is to establish long-term relationships; to that end, we endeavor to provide high quality customer service. We truly care about each person in our company. To be successful, we will treat others with the respect we desire for ourselves.

Ethics

We conduct the Company's affairs in strict compliance with both the letter and the spirit of the law, and, at all times, will treat policyholders, customers, suppliers, and all others with whom the Company does business fairly and honestly. We recognize that our reputation is our most important asset. We will not compromise our integrity. Honesty and fair dealing are hallmarks of our business operations.

Excerpts from Zoolander Life Proxy Statement – Dated March 11, 2008

Board of Directors – Biographies

R. Tomas Lyon IV – Chairman, President, CEO, and COO. Age 67. Term Expires September 2010.

Karl Palomino – Former CFO, Zoolander Life (retired September 2006) Age 62. Term began September 2006, term expires September 2010.

Jeanne Holstein-Palomino – former administrative assistant, Zoolander Life Age 30. Term began September 2006, term expires September 2010.

Ivan X. Salmon – former Chief Legal Counsel, Zoolander Life (retired September 2006). Age 58. Term began September 2006, term expires September 2010.

Hermine Dauphin – former accounting partner for Dollars ‘R Us, former insurance regulator for Insurance Department of Illinois. Age 52. Term began September 2006, term expires September 2008.

2007 Compensation

1. Board of Directors

Board Member	Basic Cash Payment	Basic Stock Payment	Committee Work ¹	Other Compensation ²
Lyon	\$100,000	\$50,000	\$40,000	\$ 50,000
Palomino	75,000	25,000	40,000	250,000
Holstein-Palomino	75,000	25,000	40,000	125,000
Salmon	75,000	25,000	40,000	125,000
Dauphin	75,000	25,000	40,000	5,000

¹Committee Work represents \$20,000 for chairperson of any committee and \$10,000 for non-chair position on any committee.

² Other Compensation represents compensation awarded by Compensation Committee for extra services performed by members, including use of company transportation, access to legal and accounting services, and bonus cash awards.

2. Stock Ownership of Board Members

The following list details the stock awards and year awarded for each current Board member. Board members did not report owning any additional shares of Zoolander stock

Board Member	2006 ³	2007 ⁴	Total
Lyon	\$30,000,000	\$10,000,000	\$40,000,000
Palomino	20,000,000	5,000,000	25,000,000
Holstein-Palomino	10,000,000	3,000,000	13,000,000
Salmon	10,000,000	3,000,000	13,000,000
Dauphin	-----	-----	-----

³ 2006 stock award represents employee awards granted upon completion of IPO.

⁴ 2007 stock award represents special bonus to key executives and Board members

3. Compensation of Key Executives

Executive	Year	Salary	Bonus	Stock Awards ⁵
Lyon	2007	\$2,000,000	\$667,000	\$10,000,000
	2006	1,500,000	500,000	30,000,000
	2005	1,000,000	333,000	-----
Dodo	2007	\$1,500,000	\$500,000	\$7,500,000
	2006	450,000	150,000	500,000
	2005	275,000	92,000	-----
Finch	2007	\$600,000	\$200,000	\$2,000,000
	2006	270,000	90,000	-----
	2005	210,000	70,000	-----
Jay	2007	\$450,000	\$150,000	\$1,000,000
	2006	210,000	70,000	-----
	2005	180,000	60,000	-----

⁵ Stock Awards include both employee and Board Member awards

All Stock awards made in 2006 and 2007 vested immediately upon grant of award.

Board of Directors Committees

Board Member	COMMITTEES				
	Audit	Compensation	Nomination	Investment	Risk Management
Lyon	M		C	M	
Palomino	C	M			M
Holstein-Palomino	M	C			M
Salmon		M	M	C	
Dauphin			M	M	C
Meetings Held	1	1	1	0	4

C = Chairperson

M = Member

Selected Excerpts from Minutes of Board of Directors Meeting – Dec. 11, 2007
All Board Members Present, also in attendance Mr. Dodo, CFO

Report of Committees

1. Audit Committee – Mr. Lyon reported that the committee met once, (while vacationing together in Europe). The committee had voted to reappoint Brown & Co as Independent Accountants for 2008. This recommendation was approved unanimously by the full Board.
2. Compensation Committee – Ms. Holstein-Palomino reported that at its annual meeting the committee submitted the increased compensation and awards to Mr. Lyon, who approved them.
3. Nominating Committee -- Mr. Lyon reported that the nominating committee voted to recommend a continuation of the current Board structure (5 members with at least one independent member). Mr. Lyon noted that Ms. Dauphin recommended expanding the Board with a larger portion of independent members; this recommendation was defeated 2 to 1. The Committee also recommended that Mr. Salmon begin a search of candidates to replace Ms. Dauphin, whose term expires next year. It is contemplated that all other Board members will be re-nominated in 2010. The recommendations were approved by the Board by a vote of 4 to 1.
4. Investment Committee – Mr. Salmon reported that due to calendar conflicts, this committee did not meet during the year.
5. Risk Management Committee – Ms. Dauphin reported that the committee met on a regular quarterly basis during the year. Meetings focused on reports and interviews with key employees in finance, systems, and audit. As a result of their investigation, a number of risk management concerns were revealed and the committee unanimously recommended the creation of an Enterprise Risk Management Officer. During the debate of this recommendation with the full Board, Mr. Lyon requested a formal report from Ms. Dauphin regarding the necessity of another management position. He proposed postponing the vote on this recommendation until the next Board meeting, after the Board could review Ms. Dauphin's report. The Board voted 4 to 1 in favor of Mr. Lyon's recommendation.

Report of the CFO

(Note at this point of the meeting Mr. Palomino and Ms. Holstein-Palomino excused themselves due to another appointment.)

1. Mr. Dodo presented the financials to the Board along with the projected financial for next year. Mr. Dodo stated that all numbers were preliminary and would ask the Board to approve a final financial plan for the company at the next meeting. There are still a number of systems problems with getting final numbers and the integration with SHOC Inc. is a disaster. In addition, Mr. Dodo reported that actuarial would not sign off on the financial projections since they believe the changes made in their pricing assumptions as a result of sales pressures would lead to less favorable underwriting results. Mr. Dodo assured the Board that he would get the required actuarial sign-off.
2. Mr. Dodo reported that the company's financial ratings did not change. The rating agency did not meet with Zoolander but expects they will next year. Mr. Dodo was hopeful that the integration issues occurring with the acquisition of SHOC Inc. would be addressed by that time and that a downgrade could be avoided. Mr. Lyon told Mr. Dodo that a downgrade would be unacceptable.
3. Mr. Dodo reported that he had received a request for information concerning sales practices from the Attorney General of N.Y. It is expected that the Attorney Generals of Texas and California will follow with similar requests. Ms Wolfe has been given the responsibility of securing and providing the documents to the Attorney General's Office. Ms. Wolfe assured Mr. Dodo that she would do everything she could to protect the company. The Board decided to allow Ms. Wolfe to handle the matter.

Ana Lamb

From: "Larry McCaw" McCawL@zlic.com
To: "All Employees" <mail list zlicEEs@zlic.com>
Sent: Monday, March 17, 2008 11:28 AM
Subject: Founder's Day Celebration

Zoolander Life will celebrate Founder's Day this year on Friday, June 13, 2008. In honor of the 105th anniversary of our founding, employees are encouraged to wear jeans to work on that day. In addition, we will have the traditional Founder's Day picnic. Back again this year by popular demand, we will have a bear wrestling demonstration and carnival games.

While this is always a fun time, the Founder's Day Committee would like to take this opportunity to remind everyone of our company's long and colorful history. After all, there is a reason we celebrate Founder's Day.

Noah Zoolander, pioneer, business mogul and town founder established the Zoolander Friends Assessment Society in 1903. His belief was that even the common man had a right to insure his life for a fair price. Zoolander served as the first president of the company which bore his name. Ironically, Noah Zoolander lost the company in the Banking Panic of '05 when it was taken over by Lyon & Sons (now known as Lyon Enterprises).

R.T. Lyon served as the second President (1905) until passing on those responsibilities to his son Richard (Rich) Lyon, Jr. Under Rich Lyon's leadership (1905-29), the company grew to insure over 1,000 people and converted from an assessment society to a legal reserve mutual life insurance company. Unfortunately, Rich Lyon died of influenza in the spring of 1929. His policy was the first paid out under the new legal structure and it nearly caused the company to fail.

Now known as the Zoolander Life Insurance Society, the company then passed to R.M. (Trip) Lyon, III. Trip Lyon's tenure at the company (1929-1965) was mostly uneventful. In 1965, the Presidency of the company was handed to Trip Lyon's 24-year old son, R. Tomas Lyon, IV who continues to run the company today.

Tomas Lyon has been an innovator and champion in the insurance industry. He eliminated the Home Service Life Insurance division in the late 1960's and was one of the first to offer Term Insurance in a big way with the innovative "Life Term" policy. A Property & Casualty subsidiary (Zoolander Car & Dwelling) was opened in 1977 and subsequently closed in 1989. In the early 1980's the company was one of the pioneers of Guaranteed Investment Contracts (GICs). Lyon also led the company's charge into Variable Life insurance in 1990. Lyon shepherded the company to conversion from a mutual insurer to a public company with a massive IPO in February 2006. He is also responsible for the successful acquisition and integration of the Select Hazardous Occupation Company (SHOC Inc.) last year.

In a little over 100 years, Noah Zoolander's experiment of offering the common man a little life insurance to pay for final expenses has evolved into the insurance and financial services giant we know today. Remember at Zoolander Life.....It's your Life™!

Larry McCaw
Chair, Founder's Day Committee
Company Historian
Sr. Records Tech – Section AH
Ext #752

Zoolander Life Insurance Company

MEMORANDUM

March 31, 2008

TO New CFO

FROM Nicholas Sable, Human Resources, x123

RE Bonus Compensation

Our offer for the Chief Financial Officer position includes an annual salary of \$350,000 (earned and paid bi-weekly). In addition, as a member of the Senior Management Group (Vice President level and above), the CFO is eligible for the Executive Officer's Bonus Program and a choice of Golden Sunset Retirement Plans. All employees may be able to participate in the Restricted Stock Option Program. Each is described below.

I. Executive Officer's Bonus Program

The Bonus Program is targeted at 33.3% of annual salary for Senior Management Group members. The Bonus Program is based on a calendar year from January 1 to December 31. Performance will be evaluated at the end of the year. A bonus, if earned, will be paid by March 15 of the following year, if you are still employed by Zoolander at the bonus payment date.

A precondition of the bonus payment is that the company maintains at least an "A" level rating (i.e. A- or better) from Kelly Ratings & Analysis. A 100% payout of the target amount occurs if three performance goals are met. For 2008, the performance goals are:

- New sales > \$500 million premium
- Gross investment return > 6%
- Assets under management > \$9,750 million

Each measure is given a one-third weighting in the bonus calculation. Prorated bonus amounts are paid for performance less than the applicable goals.

II. Executive Officer's Defined Benefit Retirement Plan

The Senior Management Group can choose from two defined benefit plans according to their personal retirement needs and risk tolerance:

(i) Golden Sunset Plan 1:

Defined Benefit is an annual pension equal to $85\% \times (3\text{-year final average salary})$.

(ii) Golden Sunset Plan 2:

Defined Benefit is an annual pension equal to the greater of:

- (a) $95\% \times$ initial salary accrued to retirement date at government T-bill rates, and

Zolander Life Insurance Company

- (b) initial salary adjusted for any increase in the value of Zolander from the time of hire until the retirement date.

Early retirement with a full pension is available under both Plans when age plus years of service equals 75.

III. Restricted Stock Option Program

All employees of Zolander Life are eligible to participate in the Stock Option Program if they have been employed with the company or its subsidiaries for six months and are not on performance warning (rating of 4 or lower) as of their latest review.

The performance year is the calendar year January 1 to December 31. Options are granted as of January 1 of the year following the performance year. One quarter of the options granted vest at the end of each year. Employees who terminate forfeit their rights to any unexercised options. In the case of retirement or total and permanent disability, the employee's outstanding options vest immediately at the end of the year of such retirement or disability.

Senior Management Group members are eligible for 5,000 restricted stock options per performance year. Other employees are eligible for 50 restricted options in a performance year.

R. Tomas Lyon

From: "Rick, James" James.Rick@IMRJB.com
To: "Lyon, Tomas" LyonRT@zlic.com
Cc: "Murfee, Chuck" Murfee Charles@IMRJB.com
Sent: Friday, December 28, 2007 4:32 PM
Subject: Summary of Appraisal Analysis

Tomas--

We are very sorry to hear that your plans to explore a sale of Zoolander have changed. Fortunately, we had only just completed our analysis of the inforce business and found that this business is worth \$145 million at a discount rate of 9%.

As you have requested, I am having Charlie Murfee prepare a report summarizing our analysis thus far. We will look forward to starting this appraisal back up for you in the future.

Jimmy
Managing Partner
IMRJB Consultants, LLC

----- Original Message -----

From: "Lyon, R Tomas" LyonRT@zlic.com
To: "Rick, James" James.Rick@IMRJB.com
Sent: Wednesday, December 26, 2007 11:32 AM
Subject: STOP WORK IMMEDIATELY

Jim--

Negotiations have unfortunately broken off, and we have decided not to pursue the sale of Zoolander at this time. We have appreciated your assistance with the appraisal and would appreciate a report of your findings thus far. Please discontinue any further analyses at this time.

I'm off to the golf course now, but I expect to be back in the office tomorrow afternoon.

Tommy
ext-346

Zoolander Life Insurance Company

MEMORANDUM

March 31, 2008

TO New CFO

FROM R. Tomas Lyon, IV

RE Financial Goals for 2008

As you are aware, next quarter we will start Zoolander's strategic planning for 2009. It is important that we achieve our goals for 2008 as we attempt to drive higher and higher levels of performance in our organization.

I would like to re-emphasize my expectation that the corporation earn a 15% return on equity. Now that we are in the public markets, I hear from analysts on an almost weekly basis that our return on equity numbers are too low. Our cost of equity capital is approximately 11%. To be earning less than this cost is simply unacceptable.

The key is going to be earnings improvement in every line of business. Our results in 2007 were not great. The net income goals for 2008 seem reasonable: GICs \$10.0 million, Variable Annuities \$20 million, Term Life Ins \$30 million, Corporate \$40 million and break-even in Disability. I believe we will achieve those goals; but we need to aim higher.

I have confidence that we can achieve a 15% return on equity for Zoolander Life. I look forward to discussing these points further with you in a couple of months.

Zolander Life Insurance Company

MEMORANDUM

April 14, 2008

TO Charley Pigeon
FROM Isabel Cougar, Planning, ext 641
RE Financial Statements for the New CFO

I know you wanted financial statements for the past few years but this is the best I could find. (See the attachments.) We only have good data since our Demutualization; we didn't bother to convert all the old stuff. Also, last year was the first year that we introduced reporting by business segments. So, only 2007 data is broken out by product line.

We are still struggling to complete the first quarter financial statements but they should be done soon.

Also, you asked about projections. We don't really do those at Zolander Life....I'm not sure why. Bonnie Hawke from Planning did a real nice projection in support of our Demutualization work. It was a 5-year projection and covers the years 2005 thru 2009. She last updated it for actual 2007 results so now it covers years through 2011. That's probably good enough for your purposes. I expect that things have tracked pretty closely to the plan.

Attachments

Zoolander Life Insurance Company

Income Statement

for the year ended, December 31, 2007

	GIC	Long-Term Disability	Term Life Ins	Variable Annuity	Corporate	Total
Revenues						
Premiums	-	180.0	223.6	86.8	-	490.4
Investment Income	398.6	46.8	19.9	27.1	44.7	537.1
Total Revenue	398.6	226.8	243.5	113.9	44.7	1,027.5
Expenses						
Benefits	-	153.0	140.5	43.3	-	336.8
Surrenders	-	-	-	8.8	-	8.8
Increase in Reserves	-	42.3	47.0	36.5	-	125.8
Interest Credited	375.6	-	-	-	-	375.6
Commissions	-	12.3	22.2	6.5	-	41.0
Change in DAC	-	-	-	-	-	-
Other Expenses	8.6	22.2	10.1	2.4	3.1	46.4
Total Expenses	384.2	229.8	219.8	97.5	3.1	934.4
Transfers to Separate Account	-	-	-	(4.4)	-	(4.4)
Income before Taxes	14.4	(3.0)	23.7	20.8	41.6	97.5
Income Tax	6.8	(1.9)	4.4	10.2	13.4	32.9
Net Income after Tax	7.6	(1.1)	19.3	10.6	28.2	64.6

Zolander Life Insurance Company

Balance Sheet

as of December 31, 2007

	GIC	Long-Term Disability	Term Life Ins	Variable Annuity	Corporate	Total
Assets						
Private Bonds						
Investment Grade	355.3	84.2	62.2	43.5	237.7	782.9
Below Investment Grade	575.6	29.5	16.4	16.0	113.3	750.8
subtotal	930.9	113.7	78.6	59.5	351.0	1,533.7
Public Bonds						
Investment Grade	2,315.2	335.6	221.2	184.4	229.1	3,285.5
Below Investment Grade	1,565.5	41.1	37.9	30.5	62.0	1,737.0
CMO (Investment Grade)	463.5	36.0	27.8	24.4	77.1	628.8
subtotal	4,344.2	412.7	286.9	239.3	368.2	5,651.3
Commercial Mortgages						
Investment Grade	613.1	80.1	59.1	54.1	102.4	908.8
Below Investment Grade	123.4	-	-	-	52.1	175.5
subtotal	736.5	80.1	59.1	54.1	154.5	1,084.3
Equities	-	-	-	-	-	-
Real Estate	647.9	28.0	8.7	22.6	135.5	842.7
Cash & Short Term Investments	5.2	1.1	0.8	3.0	26.1	36.2
Premiums Due and Unpaid	-	2.2	6.4	1.7	-	10.3
Deferred Acquisition Costs	0.5	1.8	10.4	3.6	-	16.3
Assets held in Separate Account	-	-	-	348.5	-	348.5
Other Assets	6.6	4.8	2.7	4.1	-	18.2
Total Assets	6,671.8	644.4	453.6	736.4	1,035.3	9,541.5
Liabilities						
Policy Liabilities - General Account	6,658.4	640.4	447.0	379.6	-	8,125.4
Other Liabilities - General Account	13.4	4.0	6.6	8.3	2.7	35.0
Separate Account Liabilities	-	-	-	348.5	-	348.5
Total Liabilities	6,671.8	644.4	453.6	736.4	2.7	8,508.9
Shareholder Equity	-	-	-	-	1,032.6	1,032.6
Total Liabilities and Equity	6,671.8	644.4	453.6	736.4	1,035.3	9,541.5

Zoolander Life Insurance Company

MEMORANDUM

January 14, 2008

TO Hugh Dodo

FROM Sean Basset

RE 2008 MARKETING PLAN

We have completed the final round of pricing for our 2008 line of products. You will be pleased to learn that we have seemingly managed to increase our profit margin projections over prior years. Furthermore, Danielle Wolfe has forwarded the marketing area's resulting production amounts to me, and they are anticipating a full 50% increase in production over prior years.

Table 1 below shows the Zoolander Index of Pricing ("ZIP") and Danielle's 2008 production by line of business. As a reminder, the ZIP is calculated as the present value of profits divided by the present value of premium at issue. The present value of profits have been calculated using this year's corporate discount rate of 9%.

TABLE 1

Projected 2008 New Business

Line of Business	ZIP	2008 Premium (\$Millions)
GIC	5.1%	130
Disability	6.1%	105
Term Life Insurance	8.6%	25
Variable Annuity	3.6%	190

I will be sending a full pricing memorandum early next week.

Zoolander Life Insurance Company

MEMORANDUM

February 15, 2008

TO Department Heads

FROM Peter Fish

RE Derivative Team

I'm very excited to announce that John Badger has agreed to join Zoolander Life, reporting to me in the newly created role of Head Derivatives Trader and Director of Derivative Securities Administration. He will be charged with building a derivatives team at Zoolander to deal with trading and administration.

We managed to scoop this derivatives hotshot from that hedge fund that just went under. John is very keen on the opportunity to put his own leading-edge derivative pricing model to work developing innovative derivative strategies in the more collegial and autonomous environment offered here at Zoolander.

Our investment team to date has lacked sophisticated derivatives skills. With John on board, not only will we be able to dynamically hedge our GICS and restore their profitability, we will also be able to develop a sophisticated strategy to manage the new ESA product (don't ask me the details, I don't get it - I'll let John explain it to you!). Even beyond this, in John's capable hands we'll be able to leverage the derivatives desk and generate excess profits turning this into a profit center on its own!

As of now, John will be a one-man show, but expects to hire a couple of derivatives traders within a couple of months, if I get more budget allocated to this initiative.

I see a very profitable future ahead!

Peter

Zolander Life Insurance Company

MEMORANDUM

February 25, 2008

TO Department Heads
FROM Henri Jay, Planning, ext 663
RE Enterprise Risk Management -- Introducing Bill Buck

Please join me in welcoming Bill Buck to the Zolander Life team.

Bill will be starting in the Planning department on March 3 and he will report to me. His position will be Second Vice President – ERM. As you can tell by his title, he will be leading our efforts to bring Enterprise Risk Management to Zolander Life.

Bill is trained as an actuary. He received his FSA in 2002. For the last six years, he worked for NADA Life where he was in charge of their Insurance Planning department. It is in that role where he was exposed to Enterprise Risk Management. He developed the first ERM models for NADA Life. Bill has been a speaker on the topic of ERM at several Society of Actuaries meetings. He has an undergraduate degree in Mathematics from State University and spent the first 5 years of his career in various actuarial positions at Zest Life Insurance.

In a couple of weeks, after Bill has gotten settled, I would like to introduce him to you and your staff. Perhaps the best forum for that would be at your department's staff meetings (if you have one) where Bill could spend 10-15 minutes describing Enterprise Risk Management. I anticipate that Bill will be working very closely with you and some of your staff members over the next several months as we bring ERM to Zolander Life.

In a couple of months, Bill will put together an internal seminar on Enterprise Risk Management. We will also be setting up an ERM council. It is not too early to start thinking about who from your staff would participate.

I thank you in advance for giving Bill your full cooperation as we implement Enterprise Risk Management at Zolander Life.

Kelly Ratings & Analysis

1 Kelly Drive, Capital City

ph 123/555-6500

www.KellyR&A.com

March 10, 2008

A. Hugh Dodo, CFO
Zoolander Life Insurance Co
411 Main Street
Zoo Falls 54321

Dear Hugh

Time once again for Kelly Ratings & Analysis' annual review of Zoolander Life. I will call you next week to set up a date. Ideally, Paula Silver, Director of our Financial Services Practice, and I would like to meet with Zoolander Life sometime in April. As in past years, we will come to your offices for a day of meetings with your senior management team. Figure on the presentation from Zoolander Life taking the first half of the meeting; the second half will be a free form Q&A with your management. We can finalize the agenda during next week's call.

I apologize that we did not meet with your company's management last year. However, let me assure you that Kelly's professional financial services analysts performed a thorough review of Zoolander Life utilizing publicly available information.

Attached is Kelly's rating rationale from last year. Please look through this document and make note of any changes you feel are necessary. In addition, we will need your 2007 financial information to be provided in the same format as in past years. I would like to receive that in advance of our meeting.

Also attached to this letter are descriptions of Kelly's Capital Adequacy formula, Kelly's Liquidity Ratio formula and the Kelly Ratio[®]. Of course, Kelly's analysts will calculate these factors for your company but we find that many of our clients wish to make their own calculations in advance of our formal analyst meeting.

I note that the Kelly Financial Wherewithal Rating[™] (commonly known as the "Kelly Ratio") for Zoolander Life is currently **A-** with a negative implication. It is rare for a company's rating to carry a negative implication for two years. We would like to resolve the issues surrounding the negative implication during this review cycle of Zoolander Life.

Sincerely

Otto Gold
Director
Financial Services Rating Bureau
Ph 123/555-6534
OGold@KellyR&A.com

Cc Paula Silver, Kelly Ratings & Analysis

ZOOLANDER LIFE INSURANCE CO

411 Main St
Zoo Falls 54321
Ph 123/555-0000 Fax 123/555-0006

Kelly Rating

Based on our opinion of the company's Financial Strength, it is assigned a Kelly Rating of A- (Super). The company's Financial Size Category is Class VIII.

Rating Rationale

Rating Rationale: The rating for Zoolander Life reflects the company's strong capital position, fine operating performance and the long-term stability of its management. However, profitability has not been strong and Zoolander will face new challenges as a public company. Future sales remain a question mark.

Rating History

Date	Kelly Rating
12/12/1973	A+
10/5/1982	A
9/21/2004	A-

Business Review

Zoolander Life Insurance Company began operations in 1903. For most of its history, it has been controlled by the Lyon family. R. Tomas Lyon is its fourth generation leader. Earlier in 2006, Zoolander completed a demutualization and issued public stock. However, the Lyon family continues to exercise control through its 49% ownership.

Zoolander made its name selling innovative term life insurance at very aggressive rates. That continues to be a hallmark of the company today. The majority of the company's earnings come from the term life line of business.

The company's ventures outside of the term life insurance line have not been as profitable. Zoolander's Long-Term Disability line has yet to show consistent results. Variable annuities have been marginally successful and have helped the company reach a more affluent class of customers.

Zoolander's started its Guaranteed Investment Contracts (GIC) business in the early 1980's and has managed it well. Investment operations have not performed as well and there is some concern if the low interest rate environment persists. However, the company has seen increasing income in this line over the past few years.

The GIC business is viewed as a nice complement to Zoolander's other businesses. The customers and the distribution system used to reach them are much different than those for the other lines of business.

With the demutualization earlier in 2006, Zoolander has set some very aggressive growth targets. The company appears to have the capital to fund this growth internally; however the plan to actually achieve sales at these levels remains unclear.

Earnings

Zoolander's earnings have benefited over the years from investment income on its very strong capital position. We expect this source of earnings to decline in the future as the company attempts to grow its business in a very competitive market. The current low interest rate environment will also continue to put pressure on earnings.

Prior to its demutualization in 2006, the company did not break out results by business segment. The numbers attributable to those business segments for years prior to 2006 below are approximate

Profitability Analysis (in millions of dollars)

Net Op Gain	2006	2005	2004	2003
Corporate	30.3	29.4	33.2	35.7
GIC	13.1	9.8	8.8	6.0
Term Life	9.2	16.7	14.7	10.2
Disability	3.2	(4.4)	(1.2)	0.3
Variable Ann	2.1	1.9	6.5	3.7
Total	57.9	53.4	62.0	55.9

Capitalization

Zoolander's capital and surplus at the end of 2006 totaled nearly \$1 billion (\$989.6 million). While the company continues to maintain a very strong capital position, the level of capital and surplus is not really comparable to prior years due to the demutualization in 2006.

We note that the company continues to operate without any long-term debt. While there is plenty of capital to fund available growth opportunities, Zoolander has stated that their desired capital structure would be 30% debt and that the company intends to achieve that mix in the future.

Such leverage could have a positive impact on the profile of Zoolander's future earnings.

Sources of Capital Growth
(in millions of dollars)

Year	Net Gain	Cap Gains	Change AVR	Other Changes	Change in Cap & Surp
2003	55.9	1.2	(0.5)	1.0	57.6
2004	62.0	8.7	(0.3)	0.2	70.6
2005	53.4	(6.6)	(0.3)	(29.5)	17.0
2006	57.9	3.1	0.8	370.6	432.4

Capital Trends
(in millions of dollars)

Year	Capital & Surplus	Stkhldr Divds	Policy Divds	AVR	IMR
2003	469.6	n/a	0.0	0.7	0.9
2004	540.2	n/a	0.0	0.4	0.9
2005	557.2	n/a	0.0	0.1	0.8
2006	989.6	22.2	0.0	0.9	1.2

Investments and Liquidity

Management anticipates lower investment returns in the near future due to the low interest rate environment. Default experience has been very good and can be viewed as much better than industry averages over the past five years.

Zoolander's liquidity position has been dropping over the past few years as they have increased their allocation of investments to longer-term non-investment grade bonds and real estate in order to boost yields.

Liquidity Tests
(ratios except for Cash Flow)

Year	Operating Cash Flow	Quick Liquidity	Current Liquidity	Non-Invest Grade Bonds to Capital
2003	63.5M	61.6	209.9	1.0
2004	11.2M	33.1	189.9	2.2
2005	11.0M	35.0	185.4	2.5
2006	11.8M	27.0	173.4	3.0

Investment Yields
(as a %)

Year	Net Yield	Mort- Bonds	gages	Cash & Sh Trm	Inv Exp Ratio
2003	6.90	6.88	7.66	5.02	8.88
2004	6.92	6.70	7.59	5.22	10.24
2005	6.78	6.66	7.60	4.87	7.25
2006	6.54	6.41	7.34	4.64	11.05

Investment Data
(in millions of dollars)

current year distribution of bonds by maturity

	Years					yrs avg
	0-1	1-5	5-10	10-20	20+	
gov	...	0.9	0.3	...	...	4
gov agency	...	0.1	1.7	0.5	0.8	13
pub util	...	0.7	1.9	...	...	6
industrial	2.3	35.0	43.7	10.9	0.3	7
cap loans	...	0.2	0.3	0.3	...	9
Total	2.3	36.9	47.9	11.7	1.1	7

Bonds (millions)	2006	2005	2004	2003
gov	1.2	4.7	5.6	7.4
gov agency	3.2	1.7	1.9	2.1
pub util	2.6	6.2	8.4	6.8
industrial	92.1	86.3	82.2	81.4
cap loans	0.9	1.0	1.8	2.2
private	16.3	18.4	24.4	22.6
public	83.7	81.6	75.6	77.4

Bond Quality (%)	2006	2005	2004	2003
Class 1	63.9	70.6	73.1	79.6
Class 2	33.3	27.4	24.9	18.6
Class 3	1.1	1.3	2.0	1.8
Class 4	1.3	0.7	...	...
Class 5	...	...	...	...
Class 6	0.4	0.1	...	...

Mortgages (millions)	2006	2005	2004	2003
Commercial	29.2	29.8	36.1	36.2
Commercial	100.0	100.0	100.0	100.0

Oth Inv Asts (millions)	2006	2005	2004	2003
Cash	(1.2)	7.3	4.7	8.1
Short-Term	0.4	0.0	(0.6)	0.0
All Other	(0.2)	0.2	0.8	0.0
All Other	...	...	0.0	0.1

History
Incorporated -- August 8, 1903

Originally formed as the Zoolander Friends Assessment Society in 1903. Purchased by the forerunner to Lyon Enterprises in 1906. Changed to a legal reserve Mutual life insurance company in 1921. In 2006 converted to a stock insurance company through an IPO and took on the current name. Fully

49% of the stock is held or controlled by Lyon Enterprises

Officers

Chairman of the Board, President, CEO and COO R. Tomas Lyon, IV; Executive VP-Planning, Henri Jay; Sr VP & Chief Counsel, Kate Finch; Sr VP-Administration, Odette Bird; VP-CFO, A. Hugh Dodo; VP-CMO, Danielle Wolfe; Field VPs, Sam Roach, Teresa Cricket, Victor Herring, Alex Trout

Directors

Hermine Dauphin, Jeanne Z. Holstein, R. Tomas Lyon IV, Karl Palomino, Ivan X. Salmon

Reinsurance

Zoolander Life utilizes a YRT reinsurance agreement with Rose Reinsurance for their Term Life Insurance business. In addition, Zoolander has excess coverage through Rose Reinsurance on their disability business.

Regulatory

An examination of the financial condition was made as of December 31, 2005 by the state insurance department. An annual, independent, audit of the company is conducted by the accounting firm of Brown & Company.

Territory: Zoolander Life is licensed in all states except New York.

Kelly Ratings & Analysis
Insurance Enterprise Liquidity Standards
formula effective January 1, 2006

Rating Standards

Liquidity Ratio	Rating Level
> 250	A+ (Superior)
217 to 249	A (Robust)
182 to 216	A- (Stable)
144 to 181	B+ (Fair)
100 to 143	B (Troubled)

The Kelly Ratings & Analysis Liquidity Standards require that available assets be compared to potential liabilities under two alternate scenarios of liquidity need. The results of these two scenarios are averaged to determine the Kelly Liquidity Rating.

The first scenario is a "Crash Scenario" where the organization is assumed to face an immediate need for liquidity. The second scenario is labeled a "Bleeding Scenario" to represent a situation where the organization may face increased withdrawals or depressed asset values over a several month period.

Available Assets are determined by applying the Kelly asset availability factors to the statutory assets of the organization. These Kelly availability factors have been developed through the study of asset values over many years, including periods with both increasing and declining markets.

Potential Liabilities are developed by applying Kelly liability demand factors to the obligations found on the organization's statutory financial statements. These factors have been created from years of study of liability benefit patterns under many different situations. They do include non-economic withdrawals.

A simple ratio of Available Assets to Potential Liabilities is utilized in the Kelly Liquidity Ratio calculations. The final value may be adjusted up or down 5% to reflect either superior or deficient operating characteristics.

Kelly Ratings & Analysis
Insurance Enterprise Liquidity Factors
 formula effective January 1, 2006

Asset Availability Factors

	Crash Scenario	Bleeding Scenario
Asset Types		
Cash	100%	100%
Short-Term Investments	100%	100%
Agency MBS	90%	90%
CMOs - Sequentials	80%	80%
CMOs - Z Tranches	0%	50%
Other CMOs	0%	0%
NAIC "1" CMBS	90%	90%
NAIC "2" CMBS	75%	90%
NAIC "1" Public Corporate Bonds	98%	100%
NAIC "2" Public Corporate Bonds	96%	100%
NAIC "1" 144A Private Placements	80%	90%
NAIC "2" 144A Private Placements	65%	75%
NAIC "1" Non-144A Private Placements	70%	80%
NAIC "2" Non-144A Private Placements	40%	50%
NAIC "3" Public Corporate Bonds	0%	25%
NAIC "3" 144A Private Placements	0%	20%
Asset Backed Securities	90%	90%
Other Non-Investment Grade Bonds	0%	0%
Unaffiliated Public Investment Grade Pref Stock	100%	100%
Unaffiliated Public Common Stock	70%	85%
Assets in Securities Lending Programs - Collateralized	100%	100%
Assets in Securities Lending Programs - Otherwise	70%	100%
Funds Withheld Reinsurance Assets	0%	0%

Kelly Ratings & Analysis
Insurance Enterprise Liquidity Factors
 formula effective January 1, 2006

Liability Demand Factors

	Crash Scenario	Bleeding Scenario	Basis
Liability Risk Factors			
Traditional Life	35%	50%	Cash value
Term Life	50%	50%	UEPR*
Interest-Sensitive Life	50%	50%	Cash value
Deferred Annuities	90%	100%	Cash value
Single Premium Immediate Annuities	100%	100%	Statutory reserves
Other Individual Annuities	100%	100%	Cash value
Supplementary Contracts	30%	50%	Cash value
Variable Life & Annuities	30%	50%	Separate account value
Individual Accident & Health	50%	50%	UEPR*
Individual Disability	50%	50%	Cash value
Structured Settlements	100%	100%	Cash value
GICs & Funding Agreements	100%	100%	Cash value
Group Annuities	100%	100%	Cash value
Other Deposit Funds	90%	90%	Cash value
Group Accident & Health	50%	50%	PSR** & UEPR*
Group Life	50%	50%	PSR** & UEPR*
Group Disability	50%	50%	PSR** & UEPR*
Health Claim Reserves	100%	100%	Statutory reserves

Surrenderability Factor

No Surrenders Allowed	0%	0%
Market-Value Adjustment	45%	45%
Surrender Charges > or = 5%	60%	60%
Surrender Charges < 5%	90%	90%
No Surrender Charges	100%	100%

* Unearned Premium Reserve

** Premium Stabilization Reserve

Kelly Ratings & Analysis

Kelly Ratio

revised July 1, 2006

Rating Standards

Kelly Ratio	Rating Level
> 250%	A+ (Outstanding)
201% to 250%	A (Impressive)
151% to 200%	A- (Leading)
126% to 150%	B+ (Adequate)
100% to 125%	B (Fair)
< 100%	C (Marginal)

Kelly Ratings & Analysis developed the Kelly Ratio to measure the financial strength of an organization based on a normalized measure of its earnings.

For each year, the ratio of pre-tax earnings to adjusted earnings needs is calculated. The Kelly Ratio takes the weighted average of this ratio for the past four years. The weightings are one-fifth per year for the prior three years except for the most current year which is given a weighting of two-fifths.

Adjusted Earnings Needs are calculated as the reserves times the applicable factor.

Reserve	Factor
Individual Life	0.75%
Group Life	0.45%
Annuities & GICs	0.60%
Health	1.00%
Variable Products	0.45%
ASO equivalent premiums	0.20%
Other	1.25%

Kelly Ratings & Analysis
Insurance Enterprise Capital Requirements
 formula effective January 1, 2007

$$\text{Required Capital} = [\text{square root of } \{C-2^2 + (C-1 + C-3)^2\}] + C4$$

$$\text{Kelly Capital Ratio} = (\text{Actual Capital \& Surplus}) / \text{Required Capital}$$

	Base	Investment grade	Non- investment grade
C-1 (Asset Default) Risk (as a % of asset value)			
Private Bonds		1.0%	7.5%
Public Bonds		0.2%	5.0%
CMOs		0.2%	5.0%
Commercial Mortgages		3.0%	6.0%
Stock - equities	30.0%		
- affiliates	% owned x affiliate's RBC		
Real Estate	10.0%		
Cash and Short Term	0.3%		
Other assets	0.1%		

C-2 (Underwriting) Risk		
Life Insurance - Term	0.2%	% of net amount at risk
Life Insurance - Whole Life	0.7%	% of net amount at risk
Health Insurance - Individual	20.0%	% of premiums
Health Insurance - Group	15.0%	% of premiums
Disability Insurance	25.0%	% of premiums
Disability Insurance	5.0%	% of reserves

C-3 (Interest Rate) Risk		
Life Insurance	0.50%	% of reserves
Health Insurance	0.25%	% of reserves
GICs - all maturities	1.25%	% of reserves
Annuities - all other	5.00%	% of reserves

C-4 (General Business) Risk		
Life & Health Insurance	1.50%	% of premiums
Variable Products	0.50%	% sep acct liab

A Hugh Dodo

From: "Foxy, Wanda" FoxxW@zlic.com
To: "Dodo, Hugh" DodoA@zlic.com
Sent: Wednesday, March 12, 2008 4:23 PM
Subject: Reinsurance Problem

Well, the good news is that we have our reinsurance for the rest of this year. The bad news is that it looks like Rose Reinsurance isn't going to be in this market next year. We have plenty of time before we need to look around for coverage; however, if we are going to consider changing the parameters, Actuarial will need some lead time to run experience studies.

I have some ideas I'd like to share with you at our monthly meeting in April.

Wanda

x-345

----- Original Message -----

From: 'Richard Scarlet'
To: 'Wanda Foxx'
Sent: Monday, March 10, 2008 8:27 AM
Subject: Zoolander Life 2008 Reinsurance Program

Just got it in the mail, Rose Reinsurance has agreed to renew your coverage for another six months, effective 4-1-2008. Here's the specifics.....

Term Life Reinsurance – Yearly Renewable Term. 6-month incurral period, 12-month reporting period. \$1 million letter of credit required. Cost \$0.030/\$1,000. Ceded \$75 billion face amount of insurance from 12-31-2007; We'll update for March 31 numbers when they are available.

Disability Reinsurance – Excess Coverage – reinsurer takes amounts in excess of \$4,000 of monthly benefit up to your monthly maximum benefit of \$8,000. Cost is 4% of premium per year. Refund eligible, 75% of the amount calculated by subtracting claims from premium. Deficit carry forward from prior years, \$38,475.

However, Rose Re has decided to get out of the life reinsurance business to concentrate on their more lucrative P&C reinsurance lines. We'll need to shop this coverage for an October 1, 2008 effective date. Might be a good time to reconsider your reinsurance options.

Richard Scarlet
Lilac Intermediaries
Ph 123/555-4567
Fax 123/555-4550
R-Scarlet@lilac.com

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Brown & Company Accountants, PLC

80 Centre Street, Suite 1300
Capital City 54301
Ph 123/555-9900

March 3, 2008

A Hugh Dodo, CFO
Zoolander Life Insurance Co
411 Main Street
Zoo Falls 54321

Dear Hugh,

Thank you for allowing us to present our Independent Accountant's Report at the February 15, 2008 meeting of the Audit Committee of the Board of Directors. We thought that many of the questions were very insightful. At the next meeting, we will present some information that Mr. Palomino requested with respect to the general level of cash disbursement controls that we see at our other audit clients.

It seems like the Annual Statement planning cycle never ends. We would like to be able to plan our schedule for the work ahead of us in 2008. Before we go too far in our process, we first need confirmation of the reappointment of our firm as Zoolander Life's Independent Auditors by your Board of Directors. We hope that is a mere formality given our 10-year association with your company but we take nothing for granted. In today's environment of accounting scandal, we believe our firm is head and shoulders above the rest on integrity. We would be happy to make a presentation of our credentials at your next Audit Committee or Board of Directors meeting.

Secondly, we would like to schedule a get-to-know you meeting with you and your staff for some time in late June, as there will be a new Senior assigned to your account. Nicole Gray has to rotate off after working with Zoolander Life for the past three years. Additionally, we will have some refinements to our work schedule. Many of the work papers and data items will be identical to last year. We plan to be in your office during December to look at the September 30 numbers. Since we began that practice in 2003, it has streamlined our review and saves us valuable time in January and February.

Once we receive confirmation and set the date for the preliminary meeting, we can work on a more detailed schedule for the 2008 audit. Any new accounting issues at Zoolander Life would certainly be a major discussion topic at that time.

Yours truly,

Lisa White, CPA
Partner
Brown & Company Accountants, PLC
Ph 123/555-9903
Fax 123/555-9910

Matthew Black, Jr., CPA
Partner
Brown & Company Accountants, PLC
Ph 123/555-9904
Fax 123/555-9910

A Hugh Dodo

From: "Pigeon, Charley" PigeonC@zlic.com
To: "Dodo, Hugh" DodoA@zlic.com
Sent: Friday, March 7, 2008 7:46 AM
Subject: Appointment of Brown & Company

Due to the timing, I think we can do this without a formal Audit Committee or Board meeting.

I talked to Mr. Lyon this morning. Since he and the other two members of our Audit Committee (Karl Palomino and his wife, Jeanne Holstein-Palomino) are together in Tuscany, they discussed reappointing Brown & Co as Independent Accountants for next year. That was approved.

Mr. Lyon will decide if he wants it on the agenda of the June 11 Board meeting and what documents he wants to share with the Board before they officially approve it. You can proceed as you have planned.

Charley Pigeon
Board Secretary

----- Original Message -----

From: 'Dodo, Hugh' DodoA@zlic.com
To: 'Pigeon, Charley' PigeonC@zlic.com
Sent: Wednesday, March 5, 2008 4:23 PM
Subject: Appointment of Brown & Company

Just got a letter from Lisa White and Matthew Black at Brown & Company. They mentioned that the Audit Committee (or Board of Directors) needs to formally appoint them for work on the 2008 audit. We need to meet with them and the new Senior to plan for the 2008 audit process in June, with work to begin in late September.

I'd recommend Brown & Company again this year. We have had a long relationship with them and their fees are quite reasonable. The fact that they know Zoollander Life so well saves us a lot of time and money compared to using someone new.

Could you add an agenda item on to the next Audit Committee/Board of Directors meeting appointing Brown & Company as Independent Auditors?

Hugh
ext-666

A Hugh Dodo

From: "Bird, Odette" BirdO@zlic.com
To: "Dodo, A Hugh" DodoA@zlic.com
Sent: Monday, March 10, 2008 4:18 PM
Subject: 3P Project – cost overruns

You told me to warn you when the Periodic Payment Processing (Triple P) Project blew through its budget. That has indeed happened. I got the latest bill from Green Software Solutions for software development. Through March 31st, we will have total project costs of \$850,000. As you recall the budget for the entire project was only \$800,000.

There is no way we'll be able to begin using the system on April 1st, 2008 (the original target date). Shary Tan from Green Software Solutions estimates they will need two more months of programming time for Phase I, the payment module. We would need another month of in-house testing after that. They have not even started on Phase II, the interface with the accounting/financial reporting system.

I think we need to get the project team together to discuss where we go from here. I believe that if we decide to continue this project, we have three options:

1. **Current.** We can revise the target date and continue with the project. I believe we could finish Phase I by June 30th, 2008 and Phase II by September 30th, 2008. I would estimate future costs of \$382,000 broken out into \$112,000 for Green Software to complete the Phase I programming, \$20,000 for our testing of Phase I and \$250,000 for programming and testing of Phase II.
2. **Delay.** We could delay the project into next year in order to allocate money in the 2009 budget. I don't think that would change our testing costs or anything on Phase II. Might make Phase I more expensive by \$15,000 as Green Software would need to re-start the project after being away from it for several months. We should be able to complete Phase I by March 31st, 2009 and Phase II by June 30th, 2009.
3. **Accelerate.** We could pay overtime and an incentive bonus to get the project done within the original timeframe. Shary Tan from Green Software said that if we were willing to pick-up the overtime and pay a bonus to her programmers (approximately \$300,000 total), she would get both Phase I and Phase II done by March 31st 2008. It feels like extortion but, under the right conditions, it might be worth pursuing.

I suppose I'll get dinged on the next "Budget vs. Actual" report for this project. However, I am technically still under budget because we included termination costs of \$150,000 (\$15,000 for each of the 10 employees that would be terminated) in the budget. If we decide not to finish the system, I'll keep the people and not have to pay the termination costs.

The financial impact of the above options in terms of any new product launch plans will have to be assessed by Danielle's team.

Odette

From: "Otter, Samuel" otters@zlic.com
To: "Foxx, Wanda" foxxw@zlic.com
Cc: "Pigeon, Charles" pigeonc@zlic.com
Re: Your recent request for term life block inforce projections.
Date: March 13, 2008

Wanda,

I wanted to follow up on your voicemail from last week. I am not sure what you'll be using these for, but please find attached projections for the term life inforce block. The results tie in with 2007 financials pretty closely, so I think that they should provide a good starting point for whatever it is you are doing. I have attached the details for the deterministic projection of cash flows based on our current best estimate, arbitrage-free yield curve scenario and I am working on the stochastic results.

When I realized you needed the assets to be run as well as the liabilities, I began using a number of arbitrary bond portfolios before I finally settled on a starting asset portfolio provided by Peter and based on end-of-year 2007 assets (pro-rated). I was surprised to find the results were rather insensitive to starting portfolio composition as long as the starting portfolio was reasonably constructed. I tested and found this property to hold for changes in the experience assumptions as well i.e. changes in experience assumptions resulted in proportionate changes in the results.

You had mentioned using padded experience assumptions but I will need more direction on what this means. Similarly, you had mentioned that these projections would be used for reserving purposes. We should discuss this further as well. The results I am providing assume that both stat and tax reserves are computed using the current CRVM reserving methodology. In all other aspects, the attached results are based on assumptions consistent with pricing.

Sam

Attachment:

Projected Cash Flows for Term Life Insurance LOB
 Prepared by Sam Otter (ext. 7890)

Cash Surrender Value: 22.3
 Statutory Reserve: 453.6
 PV DE @ Corporate Discount of 9% 71.2
 (Pre Target Surplus)

	Proj. Year 1	Proj. Year 2	Proj. Year 3	Proj. Year 4	Proj. Year 5	Proj. Year 6	Proj. Year 7	Proj. Year 8	Proj. Year 9	Proj. Year 10
Gross Premiums	223.6	207.9	197.8	189.3	182.1	176.6	181.0	171.4	159.7	148.5
Net Investment Income	20.4	22.6	19.9	19.3	18.6	18.0	18.0	18.1	17.7	17.1
Commissions & Acquisition Expenses	22.2	7.4	4.0	2.8	2.3	1.8	1.6	1.3	1.0	0.8
Maintenance Expenses	10.1	9.5	8.8	8.3	7.8	7.4	6.9	6.6	6.2	5.8
Benefits	140.5	191.0	227.0	242.3	246.5	243.1	233.0	226.2	220.4	217.4
Change in Reserves (CRVM)	47.0	9.6	(34.6)	(45.1)	(56.0)	(63.2)	(59.3)	(65.9)	(73.5)	(82.9)
Pre-Tax Income	24.2	13.0	12.5	0.3	0.1	5.5	16.8	21.3	23.3	24.5
Taxes	4.4	2.4	2.3	0.1	0.0	1.0	3.1	4.0	4.3	4.6
Distributable Earnings (Pre Target Sui)	19.8	10.6	10.2	0.2	0.1	4.5	13.7	17.3	19.0	19.9
Weighted Treasury Yield	4.86%	4.86%	4.86%	4.86%	4.86%	4.86%	4.86%	4.86%	4.86%	4.86%
Portfolio Yield	4.52%	4.52%	4.52%	4.52%	4.52%	4.52%	4.52%	4.52%	4.52%	4.52%

Charley Pigeon

From: "Lyon, Tomas" LyonRT@zlic.com
To: "Pigeon, Charley" PigeoChar@zlic.com
Sent: Monday, March 17, 2008 9:21 AM
Subject: New Product Approval

Charley, make sure the new CFO gets this when he starts and tell him to take care of it.

Thanks/RTL

From: "Wolfe, Danielle" WolfeD@zlic.com
To: "Lyon, Tomas" LyonRT@zlic.com
Sent: Friday, March 7, 2008 6:06 PM
Subject: New Product Approval

RT, Kate Finch wants to hold up our new product until there is further clarification on the new regulations. The product team of myself, Teresa Cricket and Sam Roach, have been meeting over the last two months and now this last minute barrier is thrown in front of us. Sure, every detail hasn't been worked out yet, but we always manage to figure things out. If we waited for everything to be perfect, my sales force would never have any products to sell. Business is about taking risks. This is our opportunity to lead the market and ensure that we meet our sales target for the year. If we are not the first company out with the product we won't have a chance.

I have already ordered the marketing materials and they should arrive in time for us to hit the streets by April 1. All I need is your approval. Let's not miss this opportunity. I have never seen my salesmen so excited. Of course the increased commission scale has something to do with it but they want to make Zoolander a company the public will not forget.

From: "Finch, Kate" FinchK@zlic.com
To: "Wolfe, Danielle" WolfeD@zlic.com
Sent: Friday, March 7, 2008 12:34 PM
Subject: New Product Approval

I finished reviewing the new regulations of the Enhanced Savings Annuity (ESA). I still have some concerns about Teresa's interpretation of the tax treatment that will be afforded our proposed new product under these regulations. The regulations are very complex and do not seem to apply to all purchasers of this product. In some instances, due to the purchasers unique set of circumstances the favorable tax treatment does not apply. I suggest holding off on the launch of this product until we can get clarification.

Kate

From: "Bird, Odette" BirdO@zlic.com
To: "Dodo, A Hugh" DodoA@zlic.com
Re: Systems Costs for BingBang Life concept
Date: March 13, 2008

Hugh,
You had asked for the costs associated with systems implementation for the new BingBang Life concept, for which I just got some info from Wanda.. We have traditionally done all of this work in-house but as this was not part of the 2008 Plan, and given your time frames and all the work that is currently underway to prepare our systems to support the new regulatory reporting requirements, you will have to consider outsourcing the system implementation costs to consultants. Unfortunately, our usual external providers, Green Software Solutions, are tied up with the Triple P Project too. I have provided cost estimates for both approaches below, assuming appropriate resources would somehow be available. Note that we would take care of the maintenance internally regardless of whether we perform the implementation using in-house or out-sourced resources.

BingBang Life Systems Costs

Cost	In-House	Out-Sourced
Implementation Cost (One time / up front)	\$350,000	\$447,000
Annual Maintenance (Paid in year 2 and later)	\$25,000	
Per Policy Per Annum (Term)	\$40	
Per Policy Per Annum (Single Premium Annuity)	\$25	
Per benefit payment (Single Pay Annuity)	\$4	
Inflation (Applied in year 2 and later to all expenses other than implementation cost)	3.5%	

Be reminded that this includes admin system and illustration systems costs only. Let me know when you make a decision on this and I can begin trying to secure appropriate resources for this project.

Odette

From: "Fox, Wanda" FoxW@zlic.com
To: "Bird, Odette" BirdO@zlic.com
Fwd: BingBang Pricing Assumptions
Date: March 11, 2007

Odette,

As requested.

Wanda

From: "Bison, Lawrence" BisonL@zlic.com
 To: "Fox, Wanda" FoxW@zlic.com
 Re: BingBang Pricing Assumptions
 Date: March 7, 2008

Wanda,

I have revised and attached the pricing assumptions document as you requested. If I understand correctly, Sam & Alex's BingBang concept involves the sale of a single premium life only annuity in conjunction with the sale of a term to 100 life insurance contract. The single premium annuity benefit stream is to be used to pay premiums on the term contract.

I was able to pull my annuity assumptions directly from our existing annuity product with some adjustment to the average premium size to reflect the fact that BingBang annuities will tend to be larger in size. The term to 100 assumptions were taken directly from our term portfolio and are a blend of our T20 and T30 assumptions. These should provide us with a decent starting point for our pricing analysis.

Larry

**BingBang Life Product Pricing Specifications Document
 Draft Version 1.02.01**

Description	Term 100	Single Premium Life Annuity												
Product Description	Term to 100, level annual premium.	Single premium life only annuity with annual benefit payment												
Pricing Strategy	The target is affluent market (invested assets of \$1M and above) looking to lock in low-cost lifetime coverage	The target is affluent market (invested assets of \$1M and above) looking to pay annual term premium on T100 product												
Age Distribution	<table border="1"> <tr> <td>Age 45</td> <td>30%</td> </tr> <tr> <td>Age 55</td> <td>50%</td> </tr> <tr> <td>Age 65</td> <td>20%</td> </tr> </table>	Age 45	30%	Age 55	50%	Age 65	20%	<table border="1"> <tr> <td>Age 45</td> <td>30%</td> </tr> <tr> <td>Age 55</td> <td>50%</td> </tr> <tr> <td>Age 65</td> <td>20%</td> </tr> </table>	Age 45	30%	Age 55	50%	Age 65	20%
Age 45	30%													
Age 55	50%													
Age 65	20%													
Age 45	30%													
Age 55	50%													
Age 65	20%													
Gender Distribution	Male 80% Female 20%	Male 80% Female 20% No joint Life												
Average Policy Size	\$1,000,000 of face amount	\$250,000 premium												
Number of sales	Year 1: 2,000 Year 2 - 3: 4,500 Year 4-5: 6,500 Year 6+: +10% per year	Same as Term to 100												
Product Features														
Policy Fees / Loads	Same as existing 30 year term	N/A												

Expenses		
Commissions	75% First Year Premium 5% Renewal Premium	2.5% of single premium
Acquisition / Issue Costs	\$450 per policy for underwriting	\$300 per policy issued
Systems	O.F. to provide	O.F. to provide
Experience Assumptions		
Mortality	95% of the ZOO2004 Table	85% of ZOO2000 annuity Table
Lapse	Year 1: 7% Year 2 – 10: 5% Year 11-29: 4% Year 30: 65% Year 31+: 0%	N/A
Asset Assumptions		
Gross Earned Rates	6.50%	7.50%
Asset Expense	0.15%	0.15%
Portfolio Assets	Mix of Long term corporates and treasuries	Mix of corporates, CDO, CMO
Reserves	PBR	CARVM
Capital Requirements	See Kelly Ratings & Analysis	See Kelly Ratings & Analysis
YRT Reinsurance		
Retention	\$2,000,000 per life	N/A
YRT Pool	Cede 100% in excess of retention	
YRT Rates	105% of the ZOO2004 table (zero first year rate)	
Corporate Tax on earnings	35.00%	35.00%

From: "Lyon, Tomas" LyonRT@zlic.com
To: "Pidgeon, Charley" PigeoChar@zlic.com
Subject: FW: FW: Joint Venture "Eagle" ****CONFIDENTIAL****
Date: March 21, 2008

Charley,

I need you to forward this email to the new CFO. I've been in continued discussions with Max Powers and his deal team from Insuratron for the past several weeks. We are close to fleshing out the details of a joint venture transaction between our two companies that will revolutionize the way financial services and products are delivered to the market. Due to the confidential nature of the venture, I will not go into detail at this time other than to say we have scheduled a meeting with the Board to gain preliminary approval to proceed with consideration of this joint venture in the second week of July. More detail will be provided at that time. While much work would subsequently need to be done, including legal filings, we are targeting the JV to be open for business on January 1, 2009.

The joint venture may entail establishing a new legal entity. In the interest of confidentiality, we are referring to this new entity as "Eagle". We need to consider whether Zoolander is best served by having an equity stake in Eagle or whether we should opt for a private placement of debt. Another alternative is to create a new line of business for this venture that will be consolidated into Zoolander's books for financial reporting purposes rather than have separate legal entity. I am sure there are consequences to choosing either of these options that the new CFO will have to advise me on.

I am forwarding some of the numbers for the deal. Max has told me he expects both Zoolander and Insuratron to provide \$50M each in capital at the onset of the venture. I have already informed our investments department to free up some cash in preparation for this. Fish mentioned that a private placement may not meet our investment guidelines and that he has concerns with assuming counterparty risk from a newly formed entity unless Zoolander has a controlling stake. He is drawing up some slides with his concerns and will get his five minutes to present these to the Board. In the meantime, we'll need to think of how best to provide Max the assurances he will need if Zoolander is to take a controlling interest in the operations of Eagle.

You'll be getting some additional information from Platinum Baggs and Co., some investment people who have been consulting with us. I had the opportunity to meet with the young lady who heads their Bermuda office during my visit there and she seemed very sharp. She will be sending you the report they prepared for Insuratron in February.

Let's make it happen!

TL

From: "Fish, Peter" PFish@zlic.com
To: "Lyon, Tomas" TLyon@zlic.com
Subject: FW: Joint Venture "Eagle" ****CONFIDENTIAL****
Date: March 13, 2008

Tom,

At your request, I am confirming, based on our investment guidelines, our inability to invest monies in private placement debt when the issuing entity is non-rated. I also believe we have a strong preference for maintaining a controlling stake in any venture of this size. I have spoken with Max's deal team and I believe that some form of parental guarantee would get them comfortable with their playing a more passive role. I am not an actuary but I don't think it would cost us much to offer such a guarantee given the Baggs report which shows that even if we offer to guarantee to return the initial Insuratron investment of \$50M, according to my math this would only occur with 6% probability and cost us about \$1M in the worst case scenario (i.e. $30\% \times 20\% \times (\$50M - \$32M)$).

Regards,

Peter

From: fdrappner@insuratron.com
To: "Lyon, Tomas" Lyont@zlic.com
CC: mpowers@insuratron.com, wrenm@zlic.com
Subject: Joint Venture "Eagle" ****CONFIDENTIAL****
Date: March 5, 2008

Mr. Lyon,

Max has asked me to forward you the funding options for joint venture Eagle. All of our analysis assumes that after a review at the end of 2 years, a go/no go decision will be made to continue to operate Eagle for another 3 years, at which it will be spun-off or go public January 1, 2014. Our best 5-year projection is that your 50% share of the venture will be worth \$150 million at that time. The models suggest that Eagle will require a \$50M investment from you at the beginning of 2009. If the Zoolander investment is in the form of debt, we expect that the debt facility will mature at the end of 2013 and that interest will be paid at 10% per annum.

I will be traveling much of next week but checking voicemail occasionally. I trust you will make me aware of any additional requests for information that you may have.

Regards,

Fred

Platinum Baggs™

March 14, 2008

Mr. Lyon,

This letter is being sent to you in response to a request from Max Powers of Insuratron. Mr. Powers indicated that Zoolander and Insuratron are considering aligning their respective strengths in the joint venture operation "Eagle". Platinum Baggs is firmly committed to facilitating the successful launch of this new venture.

The following information will prove useful in helping you assess the merits of Eagle. Of course, in the event that you have additional questions, please do not hesitate to contact me. As you may already be aware, Platinum Baggs has consulted on numerous transactions of this nature and has a firmly established reputation in the areas of investment banking, executive compensation packages, taxation, insurance and financial structuring. With over 100 associates worldwide and offices in Bermuda, the Cayman Islands and Belarus, we are a world leader when it comes to implementing creative solutions for our many clients. We count on earning your trust and business.

Iris E. Vader
Managing Partner
Bermuda

Joint Venture Eagle – Summit Meeting Report – February 2008

Executive Summary

Platinum Baggs has prepared this report to address the issues raised by client Insuratron at the February 2008 Bermuda summit meeting. This report discusses the following three key topics:

- (i) valuation of Eagle over the initial 2-year horizon;
- (ii) valuation of Zoolander’s position in Eagle over a 5-year horizon;
- (iii) potential management and compensation structures for Eagle.

Section I.

The report examines the potential values for Eagle at the end of the two year development phase assuming a January 1, 2009 operational date and finds that an expected value for the newly formed entity to be in the \$200M - \$220M range. This value was arrived at and highly contingent on the realization of assumptions provided by Insuratron management. Further, our valuation assumed that:

- The value of Eagle on January 1, 2009 equals \$100M, the value of the initial investment made by both parties,
- The value of Eagle on January 1, 2010 will either (a) increase from the \$100M initial value by 75% with probability 70% or (b) decrease by 43% with probability 30%.
- The value on January 1, 2011 will either (a) increase from the January 1, 2010 value by 75% with probability 80% or (b) decrease by 43% with probability 20%.

Pre-Tax Value of Eagle:

Initial Value January 1, 2009	Value on January 1, 2010	Value on January 1, 2011
		\$306M (Probability 56%)
	\$175M (Probability 70%)	
\$100M		\$100M (Probability 38%)
	\$57M (Probability 30%)	
		\$32M (Probability 6%)

Section II.

Analysis is performed to evaluate the value of Zoolander's position in Eagle at the time of a potential IPO in 5 years from the assumed operational date of January 1, 2009. Platinum Baggs expects this value to be \$150 million pre-tax, but also anticipates the following plausible range of outcomes:

<u>Probability</u>	<u>Pre-Tax Value of Zoolander's Equity Position in Eagle</u>
59%	\$225M
35%	\$50M
6%	\$0M

Our survey of the markets showed that established publicly traded companies most resembling Eagle earned average annual returns of 12% - 16% with annual stock return variance of 20% to 40%.

Section III.

Next, we have been asked to recommend a compensation structure for two potential management frameworks for Eagle: an in-house senior management team and an outsourced temporary management consultant team.

A. In-house Management

We have outlined a program that would provide a three-tiered compensation structure:

1. An initial signing bonus plus modest base salary;
2. An annual incentive bonus based on meeting annual earnings and volume objectives for the given year;
3. A bonus alignment fund.

We have recommended the bonus alignment fund to attract and retain top talent to this start-up as well as align management's incentives to the rapid success of Eagle. While our report examines a number of ways in which this fund can be structured, we recommend an approach that is characterized by the following:

- Each member of the senior management team will be offered the opportunity to invest their initial signing bonus into the bonus alignment fund on January 1, 2009.
- The bonus alignment fund will make payment at the end of the first two years of operation i.e. January 1, 2011. It will make payment equal to the initial monies invested credited with annual growth equal to 150% of the growth rate in Eagle over the corresponding time period. At a minimum, the alignment fund will make payment equal to the initial monies invested.
- This payment will be hedged by Eagle by using the initial invested monies to purchase a portfolio of Treasury securities and call options.

The bonus alignment fund should be reviewed for payments beyond the January 1, 2011 date.

B. Outsourced Consultants

We propose two alternative compensation structures to offer a temporary management consulting team to ensure that maximum value is realized from this venture:

Structure 1: Base fee of \$500,000 per annum plus bonus of 1% of the pre-tax value of Eagle at the end of 5 years.

Structure 2: Base fee of \$1 million plus bonus of 5% of the pre-tax value of Eagle at the end of 5 years in excess of \$350M.

Pension Finance AdvisorsTM

March 14, 2008

Mr. Lyon,

I am pleased to present the highlights of our valuation of the Zoolander Golden Sunset Defined Benefit Plans. Rest assured that the 2008 plan funding costs will be only a slight increment to last year. We also recommend continued engagement of Evergreen Asset Management, who have demonstrated reasonable performance compared to their peers in 2007. As usual, a complete report will follow shortly.

We would like to formally present our report to your pension committee at your earliest convenience. Please advise on availability for the weeks of April 7th and April 14th.

Best Regards,

Charles Blackburn, FSA

2008 Golden Sunset Plans Summary:

Asset Allocation:

Golden Sunset I

	<u>Actual MV</u>	<u>Weight</u>	<u>Target</u>
Equities	612.0	72%	70%
Corp. Bonds	178.5	21%	20%
Govt Bonds & Cash	59.5	7%	10%
	<u>850.0</u>	<u>100%</u>	

Golden Sunset II

	<u>Actual MV</u>	<u>Weight</u>	<u>Target</u>
Equities	0.0	0%	0%
Corp. Bonds	0.0	0%	0%
Govt Bonds & Cash	110.0	100%	100%
	<u>110.0</u>	<u>100%</u>	

Performance:

Golden Sunset I

	<u>Gross Yield</u>	<u>Net Yield</u>
Equities	6.12%	4.62%
Corp. Bonds	5.21%	4.01%
Govt Bonds & Cash	2.93%	1.93%
	<u>5.71%</u>	<u>4.30%</u>

Golden Sunset II

	<u>Gross Yield</u>	<u>Net Yield</u>
Equities	-	-
Corp. Bonds	-	-
Govt Bonds & Cash	3.15%	2.95%
	<u>3.15%</u>	<u>2.95%</u>

Valuations:

Golden Sunset I

Assets 31/12/07	850.00
Liabilities 31/12/07	1020.00
Pension Benefit Payments	122.40
Service Costs	30.60
2008 Cash Contributions	15.30
Assets 31/12/2008	901.85
Liabilities 31/12/2008	1122.00

Golden Sunset II

Assets 31/12/07	110.00
Liabilities 31/12/07	148.50
Pension Benefit Payments	1.49
Service Costs	8.91
2008 Cash Contributions	2.23
Assets 31/12/2008	115.48
Liabilities 31/12/2008	123.20

MEMORANDUM

April 16, 2008

TO New CFO

FROM Peter Fish

RE Hedge Fund Initiative

I'm very excited to present our Hedge Fund initiative for your approval.

We are seeking seed capital to launch a new hedge fund into the marketplace, Zoolander's first, targeting high net worth individuals. Our head derivatives trader, John Badger, has built a proprietary model using something he calls a "volatility arbitrage strategy". Basically, the model can determine when the market has mispriced the volatility of complex derivatives. We can take advantage of the mispricings, and close our positions for profit when the market valuations catch up.

John also wanted me to mention that he will manage the fund under tight delta limits, utilizing a dynamic hedging strategy derived from his model. We don't have to worry about administration as John's model can mark the fund's positions to market daily. John has thoroughly reviewed and tested his model. He can even show that his model has consistently produced lower prices than where the market traded on some particular fancy derivative.

John has forwarded his model assumptions to Bill Buck for his review. He also provided Bill with a walk-through of his model's calculations using a straight-forward interest rate swap. I am sure this will get Bill comfortable with this initiative.

Once we get this thing launched, not only will we get our huge management fees, we will get great returns on as much seed capital as you want participating in this great strategy!

Peter