REASSURE AMERICA LIFE INSURANCE COMPANY

In 2004, CNA Financial Corporation (CNA) sold its annuity business, term, universal and permanent life insurance operations to Swiss Reinsurance Company of Zurich (Swiss Re), which is running off the business. The transaction value was approximately $700 million, and included the sale of Valley Forge Life Insurance Company (VFL).

The transaction strengthened the operating profile and added scale to Swiss Re's subsidiary Swiss Re Life and Health America Inc. which is administering the business. The acquired block of business was made up of approximately 1 million policies in force, annualized premiums of around $225 million and total assets of approximately $3 billion.

In December 2006, Southwestern Life Insurance Company was merged into Valley Forge Life. In September 2007, VFL merged with affiliate Reassure America Life Insurance Company (RALIC) with RALIC being the surviving entity. All historical information has been adjusted to include the results of these mergers on a proforma basis. ***The merged RALIC is a professional life reinsurer, and does not write any new business directly.***

Swiss Re's overall exposure to securities backed by subprime mortgages and subprime structured collateralized debt securities was $1.7 billion or 0.6% of total assets and 6.9% of equity at 6/30/08. RALIC reported holding $105 million of subprime mortgage backed securities at 6/30/08. These securities amount to 0.6% of invested assets and 19% of surplus.

INVESTMENT RISK

RALIC's investment risk profile was roughly on par with the industry average in 2006, but deteriorated in 2007, as evidenced by a substantial decline in the already well below average pure capital ratio, as well as a decline in the risk-based capital ratio to below industry average.

Investment credit risk remains low, reflecting above industry average exposure to non-investment grade bonds, offset by modest holdings of mortgage loans and affiliated investments. Investment market risk is moderate with nominal exposure to Schedule BA assets (joint ventures, limited partnerships and private equity) but above average exposure to common stocks. Additionally, interest rate risk is high, with well above average exposure to CMO's and asset-backed securities, both of which rose sharply in 2007. However, investment returns continue to outpace the industry average.

OPERATIONAL RISK

Substantial amounts of capital were "taken out" of RALIC and upstreamed to parent Swiss Re from 2005-2007, causing surplus to decline 49% during that time frame. Operating earnings continue to be strong, but surplus increased 15.6% in the first half of 2008, again due mainly to shareholder dividends paid to the parent. Despite the fact that life reinsurance specialists' (such as RALIC) life insurance and reinsurance leverage ratios tend to be elevated, the company's reinsurance leverage nonetheless is extremely high.

Annualized premium volume is down 52% in the first half of 2008, reflecting a continuation of the volatile premium levels (which are not unusual for a reinsurance specialist).

FINANCIAL RISK

Based in Zurich, Switzerland, Swiss Re, whose three main business segments are property/casualty, life & health, and financial services, is the world's largest reinsurer. Swiss Re boosted its market-leading reinsurance business with its 2006 acquisition of the reinsurance operations of GE Insurance Services (the former Employers Re Group), with operations in over 30 countries worldwide.

In April 2004, Swiss Re acquired RALIC from CNA in a deal valued at about $700 million that included CNA's term, universal, and permanent life insurance, as well as individual annuities.

In June 2007, Swiss Re acquired the annuity business of Zurich Assurance Ltd. (Zurich Financial's UK business), which consisted of approximately 220,000 polices and will have a financial impact of roughly $100 million.

Swiss Re's operating profile has deteriorated somewhat in the last two years. The group's return on equity has declined to a point below industry average, the debt level is well above average and growing, stock market opinion is below average, revenue is down and cash flow is well below average. Nonetheless the group is still quite large.

RATINGS

RALIC currently earns our fifth highest (out of seven) qualitative credit rating, reflecting the company's generally solid earnings, but also the high and increasing interest rate risk and increasing investment leverage. These are reflected in the company's 6/30/08 Total ALIRT Score of 43, which is below the industry average Score of 50.

RALIC's public insurance financial strength ratings are "Aa2" (third highest) from Moody's, "AA-" (fourth highest) from both Fitch and Standard & Poor's, and "A+" (second highest) from A.M. Best.