



An introduction to Lighthouse



We should like to introduce you to Lighthouse Capital Insurance Company.

Lighthouse is a Cayman Islands insurance company that offers life insurance and annuity products worldwide. It holds an Unrestricted Class B Insurance Licence issued by the Cayman Islands Monetary Authority.

The company was established in November 1996 and has traditionally issued variable life insurance and annuity products on a private placement basis to high net worth individuals with a connection to the United States. The policies are specifically designed to conform to the relevant U.S. tax codes and to obtain favourable treatment for tax purposes. In the case of an annuity, this normally allows for a deferral of income tax, while an appropriately structured life policy may also provide a mitigation of estate tax.

More recently, Lighthouse has developed a number of tax and estate planning solutions for residents of other countries using life insurance and annuity products.

We hope you will find the following information to be of interest and we would be delighted to hear from you.

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Disclaimer

Even though Lighthouse has considerable experience in the use and structuring of life policy and annuity products, as the issuer, it is not in a position to provide advice to clients on the suitability of such products in any particular case. The benefits offered by life insurance and annuities mean that they have been increasingly incorporated into the fiscal and estate plans of high net worth individuals and have been used in conjunction with other tools, such as trusts; nevertheless it is important that each client obtains the necessary legal and tax advice. The Lighthouse Team possesses the skills required to develop an effective solution for individual clients and will work with a client's advisors to address those issues. Where a client does not have advisors experienced in this highly technical area, Lighthouse is able to make referrals to appropriately qualified professionals.



I. Products and services

The products of Lighthouse are international private placement policies designed to offer primarily financial, tax and estate planning solutions for clients with a net worth capable of sustaining a policy with a single, or combined multiple, premium in excess of US\$1million

The principal products are:

- **Variable life insurance**

providing tax-free lifetime accumulation together with a tax-free death benefit. In addition, certain policies allow for tax-free lifetime access to the policy assets by way of surrenders and policy loans

- **Variable annuity**

a retirement planning tool providing tax free lifetime accumulation

II. Features

The features of the Lighthouse policies include:

- real and recognised economic substance and business purpose providing tax effectiveness and compliance
- substantial flexibility in the choice of investments, managers and custodians
- an efficient means of passing assets to future beneficiaries, with the minimum of probate and executorship administration and cost
- compliance with 'Know Your Client' and 'Due Diligence' requirements, yet still allowing confidentiality of transactions and dealings

III. Some typical uses of a policy

When it was established, Lighthouse concentrated on providing solutions for clients with a connection to the United States and the policies have been structured in many different ways by a variety of clients. The main categories include:

- high-wealth U.S. clients wishing to invest outside the United States
- high-wealth non-U.S. clients proposing to move to the United States
- high-wealth non-U.S. clients or trusts with US beneficiaries

More recently there has been an increasing use in non-U.S. related situations, where client needs and goals require a tax efficient and compliant international product



IV. Our approach

Life insurance has generally been considered unattractive because of its high cost, substantial broker commissions, front-end loads, surrender charges and lock-ins. Furthermore, the limited investment options offered by many insurance companies frequently result in an inflexible and often unsuitable product

Lighthouse has developed a number of proven strategies to satisfy the needs of high net worth clients and to combat the historical shortcomings of life insurance and annuity products. Lighthouse offers:

- policy construction on a custom built basis to provide policies that are personalised, flexible and cost-efficient
- policies issued by a regulated insurance company with the security of Segregated Account laws that protect the policy assets from the liabilities of the insurance company and other policies
- a 'Best-in-Class' infrastructure; using the services of industry recognised leaders, such as Aon Insurance Managers, Hannover Re, KPMG, and Fortis
- the flexibility of a private company, rather than being a branch or subsidiary of a global insurer, thus avoiding extensive internal regulation and standardisation
- an open architecture with complete visibility of all component providers and costs
- low costs, without sales or surrender charges
- mortality insurance coverage at the 'wholesale' reinsurance market cost
- the opportunity for the policy to have a tailored investment strategy and the ability for a client to control the selection of service providers, such as the investment manager and custodian

V. The Lighthouse operations and partners

Lighthouse concentrates on the design and issue of bespoke policies to satisfy the needs of individual clients, while the 'Lighthouse Team' includes substantial institutional players

The corporate administration and the insurance management and administration is carried out by Aon Insurance Managers. Aon is a Fortune 500 company headquartered in Chicago that is a world leader in risk management and insurance business

Lighthouse bears the first US\$1,000 of risk per policy and the balance is re-insured with Hannover Re. Hannover, based in Germany, is one of the leading re-insurance groups in the world, with ratings of AA- ('very strong') from Standard and Poor's and A ('excellent') from AM Best

Lighthouse is partially owned by the Fortis Group. Fortis is the major Benelux banking and insurance group that ranks among the top 20 financial institutions in Europe with a market capitalisation of over €35 billion

The company's auditors are KPMG



VI. The security and investment of policy assets

Lighthouse was established in the Cayman Islands in order to take advantage of the Separate Account Statute. This statutory account segregation means the assets of each client's policy are held entirely separately, providing a significant level of comfort to clients in fully protecting their assets from any risks and liabilities of the insurance company and from the policies of other clients. This segregation also means that each policy can pursue an investment strategy, independent of all other policies

An independent investment manager, or group of managers, will manage the policy assets and the choice of investment managers and custodian is agreed in close consultation with a client

The specific circumstances of a client may mean that a policy needs to comply with particular regulations. This might influence the type and proportion of assets that may be held in a policy; nevertheless, it is normally the case that the investment manager has freedom to invest in virtually any asset class, including listed stocks, government bonds, unlisted securities, hedge funds, foreign stocks and bonds, private company shares, limited and other forms of partnerships and real estate. There is a growing number of insurance dedicated investment funds, that enable a policy to invest in a single investment fund without the need for individual diversification

VII. What sets Lighthouse apart from other insurers?

In addition to the product benefits, Lighthouse believes that as a provider of insurance and annuity products it has possibly a unique service offering with policies that are amongst the best available. In some markets, it considers similar death benefits may not actually be available to individual clients. It is important to stress that the solutions provided by Lighthouse policies are practical, they are being used to satisfy actual client needs and they are true insurance and annuity structures

When providing the policy premium, clients have the flexibility of paying by cash and/or by the direct transfer of an investment portfolio or other assets

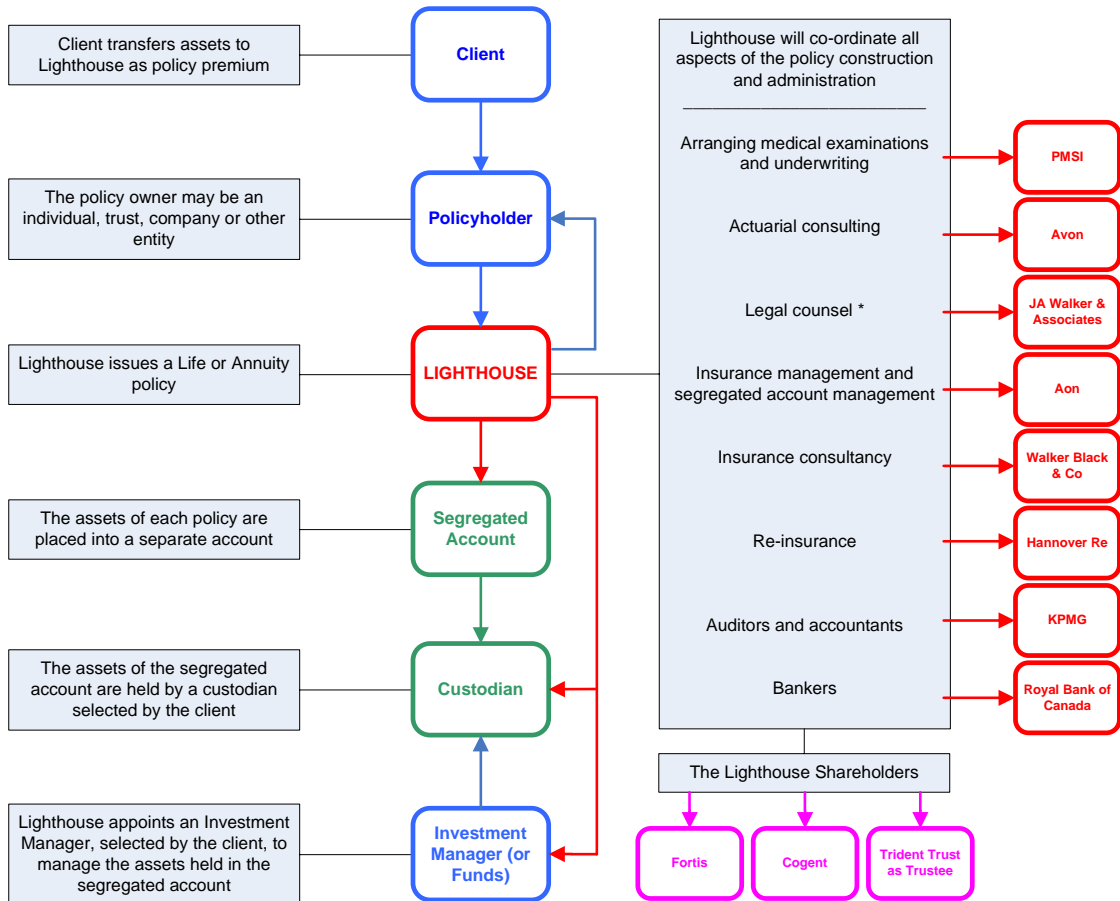
The policy structure and underlying investment management and custody arrangements are custom structured for each policy to satisfy individual client requirements

Lighthouse will always act with impartiality when offering policies to clients and a particularly attractive aspect of a Lighthouse policy is its cost effectiveness. There are no loads or similar charges and the policyholder has direct access to life insurance at wholesale prices

Not just in pricing, but in every aspect of its business, Lighthouse adopts an open architecture where all the components and costs are completely visible to the client



VIII. The Lighthouse structure



* Lighthouse does not provide legal advice to prospective clients. The Lighthouse Team will however work with a client's independent advisors to provide a custom designed policy.

Lighthouse Capital Insurance Company
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IX. Illustrations

Illustration 1: Variable Universal Life Insurance: Single premium, US MEC policy

Initial interest rate	8%	Annual administration fee	0.75%
Federal excise tax	0%	Premium commission	0%
		Trail commission	0%
Male, Non-smoker		Comparison tax rate	40%

Age	Policy Premium	Death benefit at start of year	Account value at start of year	Account value at end of year	Comparable after-tax account value
55	2,000,000	5,810,000	0	2,137,415	2,096,000
56	0	5,810,000	2,137,415	2,281,503	2,196,608
57	0	5,810,000	2,281,503	2,433,507	2,302,045
58	0	5,810,000	2,433,507	2,594,566	2,412,543
59	0	5,810,000	2,594,566	2,765,733	2,528,345
60	0	5,810,000	2,765,733	2,948,161	2,649,706
65	0	5,810,000	3,810,717	4,065,085	3,349,686
70	0	6,077,152	5,284,480	5,648,980	4,234,582
75	0	7,760,051	7,390,525	7,909,891	5,353,243
80	0	10,881,011	10,362,868	11,081,727	6,767,423
85	0	15,183,990	14,460,943	15,446,397	8,555,192
90	0	21,044,385	20,042,271	21,372,576	10,815,240
95	0	27,925,010	27,648,524	29,537,386	13,672,332

Initial interest rate	10%	Annual administration fee	0.75%
Federal excise tax	0%	Premium commission	0%
		Trail commission	0%
Male, Non-smoker		Comparison tax rate	40%

Age	Policy Premium	Death benefit at start of year	Account value at start of year	Account value at end of year	Comparable after-tax account value
55	2,000,000	5,810,000	0	2,176,997	2,120,000
56	0	5,810,000	2,176,997	2,367,070	2,247,200
57	0	5,810,000	2,367,070	2,572,284	2,382,032
58	0	5,810,000	2,572,284	2,794,698	2,524,954
59	0	5,810,000	2,794,698	3,036,406	2,676,451
60	0	5,810,000	3,036,406	3,299,730	2,837,038
65	0	5,810,000	4,619,367	5,031,118	3,796,597
70	0	8,141,719	7,079,756	7,708,236	5,080,703
75	0	11,395,286	10,852,653	11,830,418	6,799,127
80	0	17,513,566	16,679,586	18,166,936	9,098,766
85	0	26,787,727	25,512,121	27,755,310	12,176,201
90	0	40,694,043	38,756,232	42,094,021	16,294,504
95	0	59,187,853	58,601,835	63,764,690	21,805,722



Illustration 2: Variable Universal Life Insurance: Multiple premium, US non-MEC policy

Initial interest rate	8%	Annual administration fee	1.25%
Federal excise tax	1%	Premium commission	0%
		Trail commission	0%
Male, Non-smoker		Comparison tax rate	40%

Age	Policy Premium	Death benefit at start of year	Account value at start of year	Account value at end of year	Comparable after-tax account value
55	400,000	5,660,000	0	413,485	419,200
56	400,000	5,660,000	413,485	850,621	858,522
57	400,000	5,660,000	850,621	1,314,433	1,318,931
58	400,000	5,660,000	1,314,433	1,807,851	1,801,439
59	400,000	5,660,000	1,807,851	2,333,787	2,307,108
60	0	5,660,000	2,333,787	2,470,999	2,417,850
65	0	5,660,000	3,103,014	3,284,246	3,056,579
70	0	5,660,000	4,119,430	4,363,812	3,864,044
75	0	5,829,618	5,552,017	5,949,875	4,884,820
80	0	8,227,523	7,835,737	8,390,301	6,175,256
85	0	11,557,347	11,006,998	11,772,837	7,806,590
90	0	16,126,839	15,358,895	16,400,920	9,868,878
95	0	21,551,389	21,338,009	22,830,023	12,475,966

Initial interest rate	10%	Annual administration fee	1.25%
Federal excise tax	1%	Premium commission	0%
		Trail commission	0%
Male, Non-smoker		Comparison tax rate	40%

Age	Policy Premium	Death benefit at start of year	Account value at start of year	Account value at end of year	Comparable after-tax account value
55	400,000	5,660,000	0	421,157	424,000
56	400,000	5,660,000	421,157	874,765	873,440
57	400,000	5,660,000	874,765	1,365,152	1,349,846
58	400,000	5,660,000	1,365,152	1,896,742	1,854,837
59	400,000	5,660,000	1,896,742	2,474,147	2,390,127
60	0	5,660,000	2,474,147	2,670,149	2,533,535
65	0	5,660,000	3,630,696	3,923,842	3,390,441
70	0	6,182,609	5,376,182	5,823,356	4,537,175
75	0	8,432,634	8,031,080	8,765,969	6,071,764
80	0	13,044,785	12,423,605	13,549,220	8,125,390
85	0	20,084,944	19,128,518	20,838,312	10,873,605
90	0	30,718,950	29,256,143	31,819,566	14,551,336
95	0	44,996,322	44,550,814	48,548,636	19,472,970



How to contact us

In the first instance, you are invited to contact us in Guernsey and we will ensure that you are directed to a selected key member of the Lighthouse team that is most appropriate for your individual circumstances

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