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14 *Attorneys for Plaintiff*

15 **UNITED STATES DISTRICT COURT**
16 **NORTHERN DISTRICT OF CALIFORNIA**
17 **SAN FRANCISCO DIVISION**

19 JOE S. YEARBY, on behalf of himself and all
20 others similarly situated,

21 Plaintiff,

22 v.

23 AMERICAN NATIONAL INSURANCE
COMPANY,

24 Defendant.

Case No. 3:20-cv-09222-EMC

DECLARATION OF KEITH MCNALLY

1 I, Keith McNally, hereby declare as follows:

2 1. I submit this declaration in support of Plaintiff's Motion for Preliminary Approval
3 of Class Action Settlement, in connection with the class action settlement between Plaintiff, on
4 behalf of itself and the class, and Defendant American National Insurance Company. I have
5 personal, first-hand knowledge of the matters set forth herein and, if called to testify as a witness,
6 could and would testify competently thereto.

7 **A. Experience and Qualifications**

8 2. I am a company director and the Chief Operating Officer at Demeter Capital Limited
9 ("Demeter Capital"). Demeter Capital is authorized and regulated by the United Kingdom's
10 Financial Conduct Authority (FRN 745647) and is a financial consulting company that offers
11 independent, discrete and high quality analysis to clients active in alternative investments with a
12 core focus in the insurance market. Demeter Capital has 3 other company directors, James Rouse,
13 Marcos Flores, and Alejandra Limones who have worked together in a broad range of senior
14 positions in institutional investor capacities in the longevity markets, which includes working at a
15 large bank, large asset manager and as advisors to insurance companies. Demeter Capital works
16 with large, regulated institutional investors with a mandate to assess and acquire life related
17 exposure in the US and Europe to include life settlements and longevity/mortality derivatives. The
18 team at Demeter Capital has traded in over \$20bn longevity risk swaps, notes and securitizations
19 since 2003. Additionally, the team at Demeter Capital executed the first ever swap in the UK
20 Pension fund market.

21 3. At Demeter Capital, I am responsible for advising on the creation of new life
22 settlement investment funds and consulting for large financial institutions on their investment in
23 life settlements. Prior to Demeter Capital, I was a Managing Director and Global Head of Macro
24 Investor Products at Credit Suisse. I was also a member of the Credit Suisse's European Fixed
25 Income Operating Committee. From 2006 to 2011, along with Demeter Capital company directors
26 James Rouse and Marcos Flores, I was a leading member of the Credit Suisse Longevity Markets
27 Group which structured and executed a number of pioneering synthetic longevity/mortality deals
28 in the financial markets. I was also internal legal counsel at Credit Suisse in New York supporting

1 various fixed income structuring businesses including the Latin American team. I was a New York
2 State qualified attorney (retired) and hold an MSc in International Securities, Investment and
3 Banking as well as a Law (LLB (Hons)) degree.

4 4. My colleague James Rouse is also a company director of Demeter Capital as well
5 as its Chief Investment Officer, responsible for the risk models and underwriting of life settlement
6 assets. Prior to Demeter Capital, Mr. Rouse was a Managing Director at Fortress Investment Group
7 where he was primarily responsible for the analysis and pricing of life settlement portfolios. Prior
8 to Fortress, Mr. Rouse had spent 11 years at Credit Suisse most recently as a Director within the
9 Longevity Markets Group where he was responsible for the development of structured products
10 and longevity derivatives linked to life settlements and pension schemes. Prior to the Longevity
11 Markets Group, Mr. Rouse was in the Risk Management Division of Credit Suisse. Prior to Credit
12 Suisse, Mr. Rouse worked as a manager within the Risk Control division at Sumitomo Bank and as
13 a manager in the Financial Institutions Group at Deloitte and Touche.

14 5. My colleague Marcos Flores is also a company director of Demeter Capital as well
15 as its Chief Executive Officer, acting as an expert consulting advisor for institutional clients in the
16 insurance and credit lending markets globally. Prior to Demeter Capital, Mr. Flores started Hibiscus
17 Capital Limited (“Hibiscus”) in 2012, a consultant to large Private Equity Funds and Insurance
18 Companies with strategic investments. Prior to Hibiscus, Mr. Flores spent 12 years working at
19 Credit Suisse as a Managing Director within the Longevity Markets Group. In his role, Mr. Flores
20 was responsible for the origination, structuring and distribution of longevity risk, which included
21 life settlements. During this time, he was a SIAP (Significant Influential Approved Person) for the
22 Financial Services Authority of the UK and worked with CARMAC (Credit and Risk Management
23 Committee) within Credit Suisse to develop the global strategy of the longevity business at the
24 bank. Prior to his activity in the longevity asset class, Mr. Flores led the Fixed Income structuring
25 teams at Credit Suisse for Europe and Latin America. Mr. Flores joined Credit Suisse when the
26 firm merged with Donaldson, Lufkin & Jenrette, where he was a member of the Latin American
27 Structuring team. Mr. Flores had also spent three years in Commodities Sales and three years at an
28 affiliate of the Spanish development bank, Banco Exterior de Espana, based in Mexico.

1 **B. Valuation Purpose and Materials Considered**

2 6. Demeter Capital was retained by Class Counsel to independently value the non-
3 monetary benefits for a specific portfolio of life insurance policies (the “Class Policies”) contained
4 in the proposed settlement of the above referenced action. These benefits include: (a) a commitment
5 not to increase the cost of insurance rates (“COI”) for a period of 5 years following final approval
6 of the settlement, which we have been asked to value as starting from July 1, 2023 and ending July
7 1, 2028 (the “COI Rate Freeze”); and (b) a commitment not to challenge or rescind any policies on
8 lack of insurable interest or fraud grounds or based on misrepresentations in the policy application
9 (the “Validity Confirmation” and together with the COI Rate Freeze, the “Non-Monetary
10 Benefits”).

11 7. In conjunction with my colleagues, I participated in the preparation of the valuation
12 of the Non-Monetary Benefits. I have relied on the financial market and modeling expertise of my
13 colleagues in the completion of this work. The valuation methodology, valuation opinion and
14 primary significant assumptions for the opinion, are proffered below and, in more detail, in the
15 report, dated June 22, 2023, on the valuation of the Non-Monetary Benefits, which is attached as
16 **Exhibit A** (the “Report”).

17 8. In determining the estimated valuations of the Non-Monetary Benefits set forth in
18 this Declaration, I have employed methods and analyses of a type reasonably relied upon by experts
19 in the field of life settlements in forming the opinions and inferences on the subject.

20 **C. Assumptions and Valuation Methodology**

21 9. The primary significant scenario assumptions are set forth in Section 1 of the Report.
22 The valuation methodology is set forth in the introduction of the Report.

23 10. Demeter Capital is receiving compensation for time spent on this assignment. The
24 engagement of Demeter Capital for this assignment and the compensation for completing it are not
25 contingent on the development or reporting of a predetermined value or any direction in value, the
26 amount of the valuation opinion, or the attainment of a subsequent event directly related to the
27 intended use of this valuation.

1 **D. Valuation Opinion**

2 11. As a result of procedures performed, it is my opinion that a reasonable estimate of
3 the Non-Monetary Benefits is \$362,289. This amount represents the estimate of the COI Rate
4 Freeze of \$263,292 as detailed in the Report and the estimate of the Validity Confirmation of
5 \$98,997 as detailed in the Report.

6
7 I declare under penalty of perjury under the laws of the United States of America that the
8 foregoing is true and correct.

9
10 Executed this 26th day of June, 2023 at London, United Kingdom.

11 /s/ Keith McNally
12 Keith McNally

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Exhibit A

Report On the Value of the Non-Monetary Benefits Achieved in the Class Action Settlement with American National Insurance Company (“ANICO”) (the “Report”)

Executive Summary

As a result of the analysis set forth in this Report, Demeter Capital Limited (“Demeter”) has determined that a reasonable estimate of the value of the two Non-Monetary Benefits secured for the benefit of the Settlement Class, is the following:

Commitment	Value
COI Rate Freeze	\$ 263,292
Validity Confirmation	\$ 98,997
Total	\$ 362,289

For this Report “Settlement Class” is assumed as the 3,090 policies identified in the file of policy data provided to Demeter by Class Counsel and assumes that there are no opt-outs to the Class (policies which opt-out are “Opt-Out Policies”).

Scope

Demeter was retained by counsel for the plaintiffs in connection with a class action against American National Insurance Company (“ANICO”) in order to value the non-monetary benefits contained in the settlement agreement in connection with its forthcoming motions for preliminary approval and final approval of the settlement.

This Report provides an estimate of the value of two commitments from ANICO with respect to the Settlement Class.

The two non-monetary benefits (the “Non-Monetary Benefits”) that are the subject of this Report are the following commitments by ANICO:

- **COI Rate Freeze.** Agreement not to impose a new COI rate schedule for 5 years following final approval of the settlement. We have been asked to value this (minimum) 5-year period as starting from July 1, 2023 and ending July 1, 2028. We understand the 5 year period is likely to start from the date of final approval by the court.
- **Validity Confirmation.** An agreement by ANICO not to challenge or rescind any policies on lack of insurable interest or fraud grounds or based on misrepresentations in the policy application. This promise lasts in perpetuity.

General Approach and Data Considered

A reasonable and fair approach to measure the value of the Non-Monetary Benefits to the Class is a present value of the expected cost of the promises— *i.e.*, the cost of providing the benefit. The discount rate applied to the calculations is representative of life insurance industry projects. A discount rate of 5% has been used. This is discussed in Section 1.8.

The calculations of the benefits' value are made by using future projections of the cashflows of the policies. The projections are performed both with and without the promises, and the value of the benefits is taken as the present value of the difference between the two projections.

The future projections require a modelling of the future mortality of the policies. Demeter has extensive experience with cash flow projections for life insurance policies including universal life insurance policies like policies in the Class. Demeter has regularly performed these types of calculations for our clients including life insurance companies and life settlement funds.

ANICO has provided its own expectations of mortality for the Settlement Class, referred to in this report as ANICO's base case mortality assumption. For the purposes of this Report Demeter has used this as the base scenario table. Demeter has estimated the volatility of expectations of mortality around this base case mortality, as described in detail in section 1.

We have been provided with data for 3,090 policies that we understand were in force on January 10, 2010 and have not had their COI rates decreased. We have also been provided with a file of policy data as of April 30, 2021, with deaths updated through April 30, 2021¹. This file also contains, for each policy, the difference between what COI charges would have been under the scale as of April 30, 2021.

We were asked to assume that the Non-Monetary Benefits start on July 1, 2023. Therefore, it was necessary to update the Settlement Class from May 31, 2021, to July 1, 2023. For the purposes of this Report, we have assumed a certain rate of lapse as described in section 1.2 and maturities consistent with ANICO's base mortality assumptions from May 31, 2021, to July 1, 2023.

Approach for Valuing the COI Rate Freeze

"COI Rate Freeze": For a period of 5 years following the Final Approval Date of the Settlement, ANICO agrees to not increase the COI rate schedules on the Final Settlement Class above the COI rate schedules in place as of April 30, 2021.

In providing the COI Rate Freeze, ANICO is foregoing the ability to raise COI rates even in the event of negative changes to the mortality expectations of the Settlement Class (or for any other reason). To evaluate the benefit of the COI Rate Freeze, we considered the probabilities of various future changes in mortality scenarios of differing degrees of magnitude, and, using those numbers, the difference in what ANICO would have been able to charge using a COI increase compared to what they now cannot for the next five years.

Methodology for COI Rate Freeze Valuation

The main driver of a potential COI increase we have considered is the mortality performance of the Settlement Class.

The methodology for the COI Rate Freeze valuation is to project death benefits and COI deductions for the policies in five scenarios:

¹ The experience data is through April 30, 2021 but the data was gathered as of 15th September 2021. For example, if someone died on April 15, 2021, but only notified ANICO on October 2, 2021, that death will not be included in the file.

- Scenario 1: ANICO's mortality expectations improve slightly
- Scenario 2: ANICO's mortality expectations improve significantly
- Scenario 3: ANICO's mortality expectations stay roughly consistent
- Scenario 4: ANICO's mortality expectations worsen slightly
- Scenario 5: ANICO's mortality expectations worsen significantly

Considering only the mortality factor, the COI Rate Freeze provides meaningful benefits to the Settlement Class in the scenarios where ANICO's expectations of mortality worsen, and ANICO might have implemented a COI increase but for the freeze – i.e., Scenarios 4 & 5. The Scenarios of this Report have been built around ANICO's base mortality assumptions as of September 30, 2021. Nothing in this Report should be taken as an endorsement of these assumptions or the accuracy or suitability of these assumptions for any purposes, other than that it records ANICO's expectations of mortality as of September 30, 2021.

To ensure that ANICO's base case mortality assumptions were suitable for the Scenarios of this Report, Demeter reviewed the mortality experience of the Settlement Class during the period January 1, 2010, to December 31, 2020. The COI Rate Freeze provides meaningful benefits in the scenarios where ANICO's expectations worsen, and ANICO might have implemented a COI increase but for the freeze – i.e., Scenarios 4 & 5. We therefore combine Scenarios 1-3 into a single scenario.

The probability weights applied to the scenarios are calculated using the Gaussian Quadrature rule with inputs of the distribution assumption and variable volatility. The settings of the volatility and distributions for mortality and interest spread are described in section 1.

For future mortality improvements for the purposes of this Report, we have used an internal mortality improvement assumption from ANICO's mortality experience studies.

Mortality for Scenarios 1, 2, 3, 4 & 5 have been generated as described below in Section 1.1 (Mortality).

We have then calculated the value in these scenarios with a present value calculation of the resulting cash flows, using a discount rate of 5%.

The calculations use cashflows through July 1, 2028, which consider that ANICO cannot raise rates for that period. Cashflows after July 1, 2028 are not included in the calculation as the COI Rate Freeze promise ends.

Each of the five scenarios needs to be quantified for

- Extent of the change in mortality expectations; and
- Probability of the scenario.

The quantification of the scenarios and outcomes are detailed in Section 2.

Approach for Valuing the Validity Confirmation

The Validity Confirmation is an agreement by ANICO not to challenge or rescind any policies on lack of insurable interest or fraud grounds or based on misrepresentations in the policy application. The Validity Confirmation is set forth in Section 49 of the Settlement Agreement which provides:

American National agrees to not take any legal action (including asserting as an affirmative defense or counter-claim), or cause to take any legal action, that seeks to void, rescind, cancel, have declared void, or seeks to deny coverage under or deny a death claim for any Class Policy based on: (1) an alleged lack of valid insurable interest under any applicable law or equitable principles; or (2) any misrepresentation allegedly made on the application for, or otherwise made in applying for the policy

All policies in the Settlement Class have been in force for more than 2 years and are all outside of their contestable periods. This means the risk for a policy holder of a contest to a death claim for reasons such as suicide or inaccuracy in medical statements has now passed. As a result, absent trivial issues such as a failure to present a death certificate, fraud or lack of insurable interest now present the main reasons why ANICO would not pay a death benefit claim.

The calculation of the value of the Validity Confirmation was performed as the present value of the difference between two projections:

- ANICO's base case mortality and lapse rate assumptions, and a risk of a challenge to the death benefit payment.
- ANICO's base case mortality and lapse rate assumptions, and no risk of a challenge to the death benefit payment.

In providing the Validity Confirmation, ANICO is foregoing the ability to challenge and resist death benefit claims in the future for the Settlement Class. In order to provide a valuation of the Validity Confirmation, we estimated the following:

- timing of the future claims for death benefits for the Settlement Class.
- the probability that ANICO could successfully resist a claim; and
- the amount of pay-out that ANICO would have saved in the event of successfully resisting a claim that ANICO is now foregoing (and that is therefore a benefit going to the Class).

The timing of the future claims was projected using ANICO's base case mortality and the lapse assumptions described in Section 1.2. However, whereas the projections for the COI Rate Freeze ended July 1, 2028, the Validity Confirmation has no end date and therefore projections were extended for 40 years – after the likely last policy maturity in the Settlement Class.

The present value of the death benefit claims was calculated by discounting at 5%.

Values are shown in Section 2.

Section 1 - Scenario Assumptions

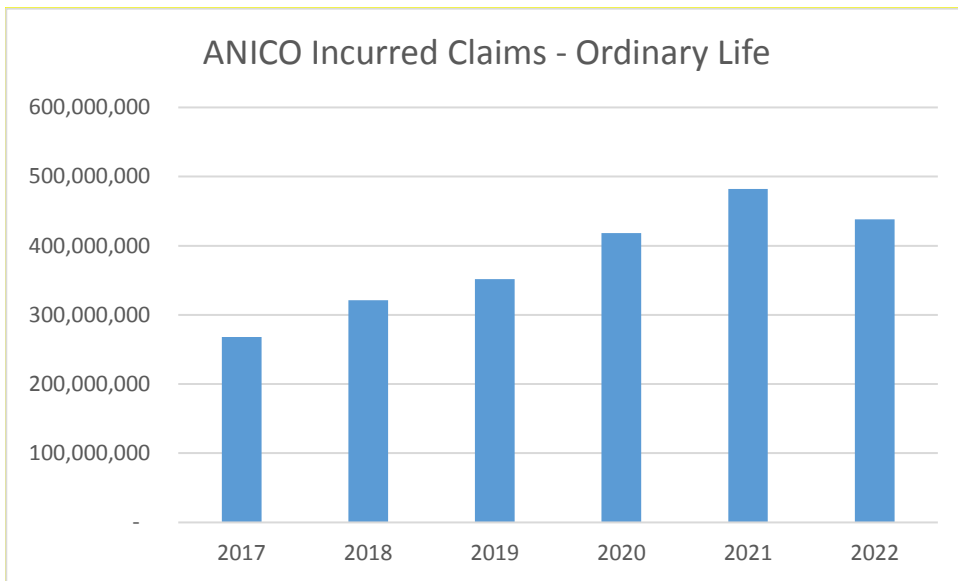
For purposes of this Report, Demeter has considered only the potential for COI increases driven by the projected performance of the Settlement Class. For purposes of this Settlement and in this litigation, we take no position and offer no opinion as to when a COI increase would be permissible under the terms of the policies, or what factors may appropriately be considered under those terms, or what grouping of policies into classes is permitted under the terms of the policies.

Our projections make use of the following assumptions.

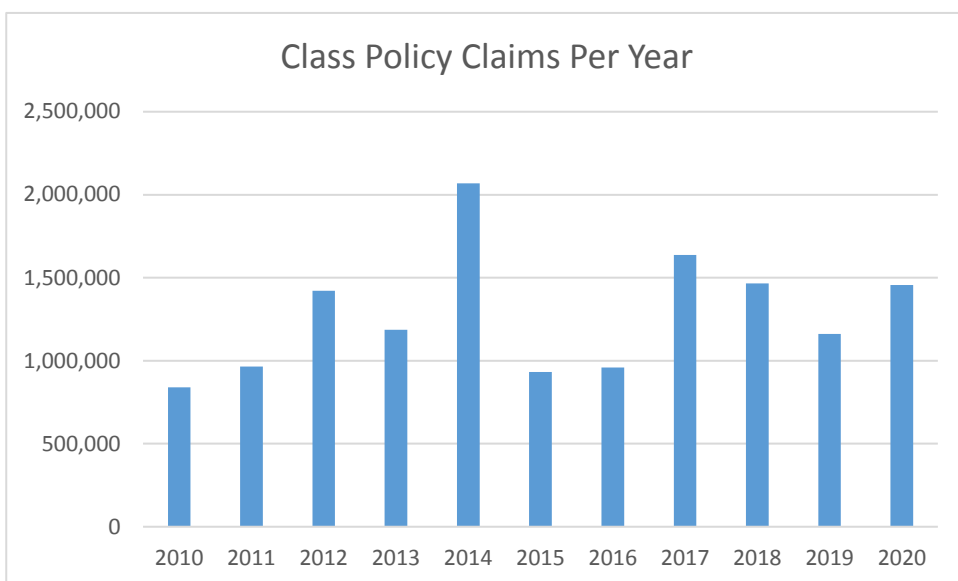
1.1 Mortality

ANICO used its own internal mortality table with various scalars and future mortality improvements applied to project mortality. This Report has used the various scalar and mortality improvement assumptions approved by ANICO’s management as of September 30, 2021. This Report considers the potential for variation in ANICO’s mortality rates for the Settlement Class over the next 5 years. ANICO has the risk that its mortality expectations for the Settlement Class increases and is unable to increase COI rates as a result of this settlement.

Mortality varies over time. ANICO’s NAIC returns show that total claims for ordinary life policies increased in 2020/21 during the time of the Covid-19 pandemic.



On a year-by-year basis the Settlement Class demonstrates greater volatility than would be seen in aggregate for a year across the whole of ANICO’s platforms. The graph below shows the claims history for the Settlement Class from Jan 2010 – December 2020.



In providing the COI Rate Freeze, ANICO is foregoing the ability to raise COI rates in the event of negative changes to ANICO's best estimate mortality expectations of the Settlement Class. To evaluate the benefit of the COI Rate Freeze, we considered the probabilities of various future changes in ANICO's best estimate mortality by using scenarios of differing degrees of magnitude, and, using those numbers, the difference in what ANICO would have been able to recover using a COI increase compared to that ANICO now cannot increase COI rates for the next five years.

To calculate the probabilities of changes in mortality we required estimates of the volatility of mortality rates.

In August 2015, Demeter published a report using base Qx shock variance of 12% and mortality improvement variance of 0.75%. For the purposes of this Report, Demeter reviewed industry data around expectations of shock changes in mortality rates to see what changes or updates should be made to this.

Sources for this review included insurance industry regulators who require life insurance companies to hold surplus capital above what might be expected, for unexpected shocks to risk factors. Demeter's analysis included the review of publications from the following authorities:

- The European Insurance and Occupational Pensions Authority's² Solvency II capital adequacy program.
- The International Association of Insurance Supervisors³
- The Financial Stability Board⁴
- Office of the Superintendent of Financial Institutions (OSFI)⁵
- Australian Prudential Regulation Authority (APRA)⁶

The American Academy of Actuaries provided a presentation to the NAIC⁷ in a report dated November 9, 2019, by the Mortality Work Group of which considered a number of risk factors to mortality, including,

- Volatility risk: The risk of natural statistical deviations in mortality experience.
- Level risk: The risk of incorrect experience mortality assumptions.
- Trend Risk: The risk that future mortality improvement is different than assumed.
- Catastrophe Risk: The risk of a short-term spike in mortality or a longer-term increase in mortality from a currently unknown health event, including Pandemic or Terrorism.

³ <https://www.iaisweb.org>

⁴ <https://www.fsb.org/>

⁵ <https://www.osfi-bsif.gc.ca/Eng/Pages/default.aspx>

⁶ <https://www.apra.gov.au/>

⁷

https://content.naic.org/sites/default/files/call_materials/Agenda%20%26%20Materials%20LRBC%2011-9-21.pdf at attachment C

Many regulators work towards high degrees of confidence. For example, The American Academy of Actuaries work uses the 95% percentile of risk.

For the purposes of this Report, we needed to estimate the expected value of the Non-Monetary Benefits, and not the 95% percentile. To do this we have assumed a log normal distribution for mortality changes.

Review of the literature sources listed above revealed nothing that would conflict with Demeter’s report of 2015. If anything, the events of the past few years have confirmed the reasonableness of the settings used in that report and this Report uses the same settings.

These give rise to the following scenarios:

Scenario	QX Shock	FMI ⁸ Shock	Scenario Weight ⁹
Scenario 4 – Worsen Slightly	+9.2%	-0.55%	23.9%
Scenario 5 – Worsen Significantly	+22.3%	-1.3%	11.8%
Scenarios 1, 2 & 3 - No COI rate adjustment	None	None	64.2%

For comparison, the life insurance industry incurred an increase in claims of 15% in 2020 (*Source*: NAIC data) during which the Covid-19 pandemic occurred. The CDC have reported excess population mortality for 2020 of 10.9% and 12.5% for 2021.

1.2 Lapse

The relationship between COI charges and mortality for the products is such that lapses favour ANICO. ANICO faces the risk that lapse rates are lower than expected and is unable to increase COI rates as a result of this settlement.

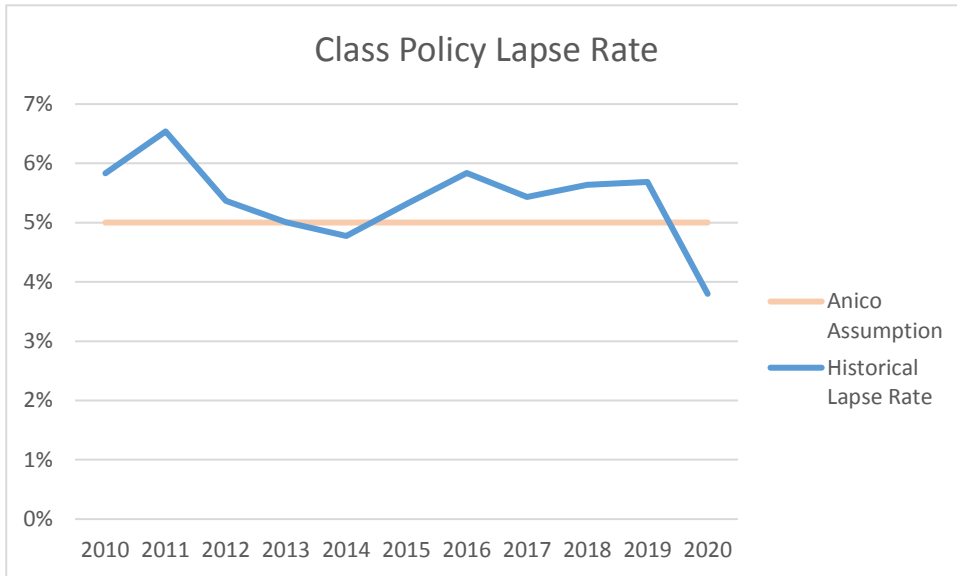
Demeter reviewed the assumptions for lapse that ANICO used in the last annual memorandum from 2021 and compared them to the Settlement Class experience for the period January 2010 to December 2020.

Demeter found ANICO’s lapse rate assumptions were reasonably in line with the actual lapse rate of the Settlement Class policies.

The graph below shows the lapse rate history for the Settlement Class during the period January 2010 to December 2020.

⁸ FMI means future mortality improvement.

⁹ Weights use the Gaussian Quadrature rule.



Accordingly, ANICO's lapse rate assumption has been used in all of the projection scenarios to evaluate the Non-Monetary Benefits.

1.3 Investment Returns

The cash value of the policies was low (\$14.5m on \$114.2m of death benefit or 12.7% of death benefit¹⁰) and can be expected to remain low as the book is well seasoned.

These factors mean there is little further downside to ANICO from investment returns in the next 5 years and variations in this factor have not been considered for this Report. Investment returns have not been included in the projection scenarios.

1.4 Expenses and Premium Taxes

The average face size of the Settlement Class is \$77,000, which is smaller than the industry average policy size of \$183,780.¹¹ However, as the average issuance date of the policies within the Settlement Class is February 1990, this means the Settlement Class is well seasoned and means that COI and Premium load deductions are much larger than expense deductions. Changes in Premium Taxes rates are infrequent and tend to be for small amounts. For these reasons, potential variations in expenses and premium taxes were considered immaterial for the purposes of this Report. As a result, expenses and premium taxes have not been included in the projection scenarios.

1.5 Premium Funding Pattern

For the purposes of this Report, premiums have been projected as the minimum premium to maintain the account value balance steady each month. This is consistent with the well seasoned nature of the policies in the Settlement Class, which have now been in force for over 30 years.

¹⁰ Total for all 3,090 policies including opt-outs.

¹¹ Source ACLI data for 2020.

The premium payment pattern has been assumed for all projection scenarios, with the low cash account values (see section 1.3) there is little further downside to ANICO from a change in funding patterns in the next 5 years, and variations in this factor have not been considered for this Report.

1.6 Taxes

The personal rates of taxation that might apply to individual policy holders could differ substantially from one holder to another. So, for purposes of this Report, we have calculated the value of the Non-Monetary Benefit of freezing COI increases gross of taxes.

1.7 Contest Success Probability and Pay-out Rates of Resisted Claims

Data from market aggregate figures provides information about how often carriers resist a death claim:

Year	Disputes Settled (\$millions)	Amount Paid (\$millions)	Amount Denied (\$millions)	Incurred Claims (\$billions)	Denied / Incurred Ratio
2015	829.1	206.5	622.5	73.5	0.85%
2016	805.9	153.8	652.0	74.8	0.87%
2017	812.2	247.9	564.3	77.0	0.73%
2018	855.8	110.4	745.4	78.4	0.95%
2019	868.8	303.0	565.8	79.8	0.71%
2020	669.1	320.5	348.6	92.0	0.38%
2021	568.7	219.3	349.4	103.3	0.34%
Total	5409.6	1561.4	3848.0	577.1	0.67%

Source: ACLI tabulations of NAIC data.

The last few years have seen a resurgence of STOLI litigation.¹² By making this settlement, ANICO is foregoing the option to take part of this wave of new STOLI litigation and instead provides payment certainty on the policies and thus value to the Settlement Class. Also new in this trend has been an increase in success rates where some carriers have been able to convince courts to permit the retention of some or all the premiums received.

For these reasons, it is reasonable for settlement purposes to use the aggregate market rate data to provide the settings for the model scenario that includes risk of a challenge to payment of death benefit:

¹² See, e.g., *Pacific Life Ins. Co. v. Wells Fargo Bank, N.A.*, C.A. No. 8:21-cv-737 (PJM) (D. Md.), *Columbus Life Ins. Co. v. Wilmington Trust, N.A.*, C.A. No. 20-735-MN-JLH (D. Del.); *Sun Life Assurance Co. of Canada v. Bank of Utah*, Case No. 21-CV-3973-LMM (N.D. Ga.).

- Probability of resisting claim = $\$5,409.6 \text{ m} / \$577.1 \text{ bn} = 0.94\%$
- Pay-out amount for resisted claim = $\$1,561.4\text{m} / \$5,409.6 \text{ m} = 28.9\%$

1.8 Discount Rates

To define the value today of the Non-Monetary Benefits provided by the Settlement, we have to present value the future cash flows with a certain discount rate.

The owners of the portfolio are likely to fall into one of two disparate groups.

- Individuals who are currently receiving low rates of interest on their bank deposits, often less than 3% and who rarely use discounting to assess the value of a project. They are currently earning 4.5% in the crediting account rate of the policies.
- Life settlement funds who target high returns on capital and who are typically earning 8-9% returns on capital.

Extremely few of the policies in the portfolio display characteristics of investor ownership such as low lapse rates, minimal account value funding, average face size greater than \$1,000,000 and average issuance dates in 2004-7— see section 1.4 and 1.7 for details.

We have used a 5% percent discount rate for this Report which represents the low rates of return expected by individuals.

1.9 Reinsurance

Reinsurance is excluded from all the calculations in this Report. Although the availability of reinsurance may have an impact on ANICO's costs, reinsurance is not relevant to the value that policyholders would obtain from the Non-Monetary Benefits.

Section 2 - Results

2.1 COI Rate Freeze Valuation

As with the Validity Confirmation valuation, we assumed a starting balance of death benefits given the in-force data as of May 31, 2021 and rolled this to July 1, 2023 using ANICO's base case mortality assumption and the lapse rate assumption described in section 1.1 and 1.2.

The assumed in-force balance was then projected forward for 60 months using the scenarios described earlier, including lapse, premium payment, and mortality assumptions. The projections were for account balance and death benefits of the policies. The present value of the difference between net death benefit payments¹³ and COI charges was calculated:

Scenario \$million	PV COI Charges	PV Net Death Benefit	Difference	Benefit	Scenario Weight
Scenario 4 - Worsen Slightly	\$6,481,754	\$4,962,739	\$1,519,015	\$501,354	23.9%

¹³ Net means difference between death benefit and account value.

Scenario 5 – Worsen Significantly	\$6,418,769	\$5,608,145	\$810,624	\$1,209,745	11.8%
Scenario 1,2 & 3 - No COI rate adjustment	\$6,526,569	\$4,506,200	\$2,020,369	Nil	64.2%

The COI Rate Freeze Value was calculated as

(Worsen Slightly Scenario Benefit x Scenario Weight) + (Worsen Significantly Scenario Benefit x Scenario Weight)

The benefit is the difference between the scenario and the COI Rate freeze that ANICO will be stuck with due to the settlement.

Worsen Slightly Scenario Benefit = \$2,020,369 - \$1,519,015 = \$501,354

Worsen Significantly Scenario Benefit = \$2,020,369 - \$810,624 = \$1,209,745

Total weighted benefit = \$501,354 x 23.9% + \$1,209,745 x 11.8% = \$263,292

2.2 Validity Confirmation Valuation

In providing the Validity Confirmation, ANICO is foregoing the ability to challenge and resist death benefit claims in the future for the Settlement Class. To determine the value of the Validity Confirmation, we performed a probability weighted net present value calculation using the assumptions set forth above. We utilized the data provided to project for the Settlement Class policies death benefits, and account balances for the period from June 30, 2023 to maturity. The projection includes the future probability of lapsing a policy, starting at July 1, 2023 using the lapse rate assumption. We assumed a starting balance of death benefits given the in-force data as of May 31, 2021 and rolled this to July 1, 2023 using ANICO's base case mortality and the lapse rate assumptions described in section 1.1 and 1.2.

We then applied ANICO's base case mortality assumption table and future mortality improvements to generate forward Qx, i.e., mortality rates, for each Class Policy and built a set of future survival probabilities starting at July 1, 2023. The future death benefits of the policies were projected using the probability of lapse and death for each month.

For the without Validity Confirmation scenario, the death benefits were reduced for a probability of being contested of 0.94% and a pay-out ratio of 28.9%.

Estimates of legal expenses incurred in resisting policies were not considered.

The results of each life insurance policy in the Settlement Class were then aggregated and discounted to reach our estimated value of the Validity Confirmation.

PV of future death benefits without Validity Confirmation = **\$ 14,747,983**

PV of future death benefits with Validity Confirmation = **\$ 14,846,980**

Value of Validity Confirmation = \$ 98,997

Section 3 – Impact of Opt Outs

We understand that the opt out period is still ongoing, and that some of the Settlement Class may opt out of the settlement by the opt out deadline, which is a deadline to be provided by the Court. As policies opt out of the class, the value of the Non-Monetary Benefits will likely decrease. Because the number of opt outs is unknown at this point, the analysis in this Report assumes zero opt outs. We will update this analysis when the final number of opt outs becomes known.


Conclusion

Using the methodology and assumptions set forth above as well as our own expertise in the subject matter, we calculated the values of the COI Rate Freeze and the Validity Confirmation. A summary of our findings are set forth in the table below.

Commitment	Value \$
COI Rate Freeze	\$ 263,292
Validity Confirmation	\$ 98,997
Total	\$ 362,289

We have performed a qualitative review of these results and believe that they are a reasonable calculation of the value of the Non-Monetary Benefits.

Demeter Capital

DocuSigned by:

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Keith McNally

June 23, 2023