

The Independent  
Order of Foresters

Year ended  
December 31, 2011

# 2011 financial highlights

# Foresters

# financial strength

## Financial highlights for the year ended December 31, 2011

(All amounts are in Canadian dollars, unless otherwise stated.)

Once again Foresters financial results were strong despite the challenging economic environment we faced throughout 2011.

- Total Comprehensive Income was \$32 million.
- We successfully completed an acquisition of First Investors Consolidated Corporation (First Investors) in the US and a transfer of Communication Workers Friendly Society (CWFS) in the UK.
- We increased our members and our certificates in force thanks to our attractive financial products, which offer good value and meet everyday needs.
- We invested carefully and cautiously, which enabled us to realize positive returns on our investments despite record low interest rates and volatile equity markets.

Commencing in 2011 Foresters financial results are being reported on an International Financial Reporting Standards (IFRS) basis.

# Sales

Strong 2011 results despite a volatile economy

## Foresters US

Total Annualized Sales  
(US \$ Millions)



- United States annualized weighted sales were US \$106 million. First Investors products contributed US \$12 million; excluding this amount sales grew by 5%.
- This growth was better than the reported 4% increase in annualized individual life insurance industry sales in the US in 2011 when compared to 2010.<sup>1</sup>
- Our two major insurance products are final expense (PlanRight) and mortgage protection (Strong Foundation). Both of these products were designed to meet the current insurance needs of Americans.

## Foresters Canada

Total Annualized Sales  
(\$ Millions)



- Canadian annualized weighted sales were \$22 million, a 13% decrease over 2010. This decrease reflects the return of our pre-paid funeral expense product (Preneed) to normal sales patterns after the implementation of a new sales tax created a sales spike in the first half of 2010.
- Excluding Preneed and group creditor sales, Canadian traditional sales, which bring in new members, increased by 25%. These were exceptional results considering that the industry average in 2011 was only 5% growth.<sup>2</sup>
- Sales in Canada have grown substantially since 2008, starting with the acquisition of Unity Life of Canada (now renamed Foresters Life Insurance Company). The growth in sales of traditional life insurance products in 2011 reflects the successful expansion of the division's distribution network.
- Two of the largest selling products in Canada were Preneed (usually sold as an annuity) and group creditor products.

## Foresters UK

Total Annualized Sales  
(UK £ Millions)



- United Kingdom annualized weighted sales were £30 million, a 5% increase over 2010.
- These were good results as the UK market grew 4.6% in 2011.<sup>3</sup>
- 2011 results continue an annual trend of increasing sales.
- The largest proportion of new business was in the form of our unit-linked savings and investment products, which are invested in our Stakeholder Managed Funds.

<sup>1</sup> Source: Fourth Quarter 2011 LIMRA's US Individual Life Insurance Sales Report. <sup>2</sup> Source: Fourth Quarter 2011 LIMRA's Canadian Individual Life Insurance Sales Report. <sup>3</sup> Source: The Association of British Insurers Q4, 2011 Summary Table 1 – Summary of New Business Premiums

# Key results

Strong performance in a challenging environment

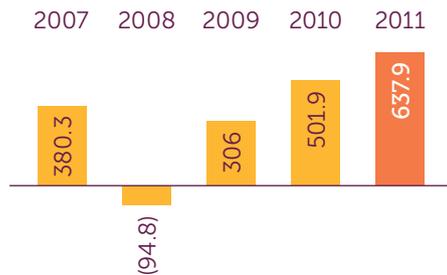
## Premiums (\$ Millions)



\*Restated to reflect impact of IFRS accounting on gross reported premiums.

- In 2011, our gross revenue from premiums was \$528 million; this has grown steadily since 2007.
- This increase reflects the significant increase in sales over the past five years as well as acquisitions.

## Net Investment Income (\$ Millions)

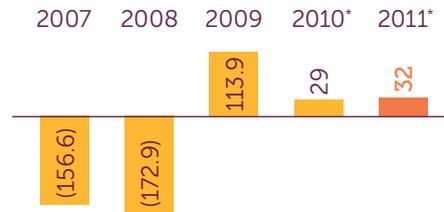


Investment income is derived from the assets held to ensure that benefits to our members will be available when needed, often many years into the future.

Foresters is committed to investing prudently, and we adjust our investment practices according to the current economic conditions. Good quality bonds, rated AA on average, make up 81% of our total invested assets. We invest the remainder to balance security (i.e., certainty of collecting interest) with growth (i.e., good investment returns).

Over the past five years, our investment results have been strong in every year except 2008, when the worldwide economic downturn affected Foresters, as it did other companies.

## Total Comprehensive Income (Loss) (\$ Millions)



\*IFRS accounting standards introduced in 2011 with a restatement to 2010 reflected above.

Total Comprehensive Income was \$32 million in 2011. Over the 5-year period, income has been quite volatile, with 2009 and 2010 showing positive results after the significant losses in 2007 and 2008, which were a result of the worldwide economic conditions at that time.

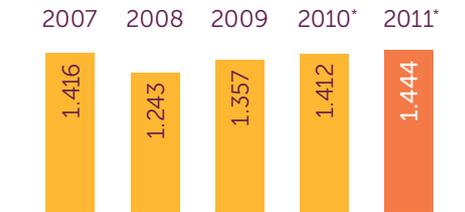
## Certificates In-force (Thousands)



During 2011, the acquisition of First Investors and CWFS increased certificates in force by over 138,000.

Since 2007, the number of certificates that Foresters has under management more than doubled to over 1.2 million. Yet thanks to economies of scale, our expenses to handle these certificates have increased by a smaller factor. Since a lower portion of members' premiums is needed to cover administrative costs, more of it is left over to provide members with benefits and to contribute to surplus.

## Surplus (Capital) and Solvency (\$ Billions)



\*IFRS accounting standards introduced in 2011 with a restatement to 2010 reflected above.

One way of measuring the long-term health of Foresters is by our total surplus. Surplus is a measurement of the value of our assets less our financial obligations to members and others. At Foresters, we use our surplus to deliver our purpose, to grow the business through increased sales and to take advantage of acquisition opportunities.

Surplus is increased by the amount of profit for the year, but it is also affected by rates of exchange as Foresters operates in three currencies. Despite the volatility of exchange rates, Foresters was able to maintain its surplus at \$1.4 billion, well above the regulator's required surplus of just under \$455 million.

Additionally, we measure our solvency by determining the ratio of available to required surplus. This ratio is our Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio, which was 336% on December 31, 2011. This ratio is well above the average of Canadian life insurers, which was 212% at the same time. Our very healthy surplus gives us significant financial strength, and the ability to continue to grow our organization.

## Summary Consolidated Statements of Comprehensive Income

For the year ended December 31, 2011 with comparative figures for 2010 (In millions of Canadian dollars)

	2011	2010
<b>Revenue</b>		
Gross written premiums	\$ 528	\$ 463
Ceded premiums	(58)	(52)
<b>Net Written Premiums</b>	<b>470</b>	<b>411</b>
<b>Net Investment Income</b>		
Interest and dividends (net)	241	240
Net realized gains	161	102
Net unrealized gains on fair value through profit and loss investments	240	190
Net foreign currency losses on available-for-sale assets	(4)	(30)
<b>Total Investment Income</b>	<b>638</b>	<b>502</b>
Other operating income	149	10
<b>Total Revenue</b>	<b>1,257</b>	<b>923</b>
<b>Certificateholder Benefits &amp; Expenses</b>		
Gross certificateholder benefits and payments	398	345
Ceded certificateholder benefits and payments	(26)	(17)
Gross change in insurance contract liabilities	351	175
Ceded change in insurance contract liabilities	(40)	(10)
Dividends	38	39
Commissions	230	160
Operating expenses	256	168
Ceded commissions and operating expenses	(19)	(21)
Fraternal investment	17	18
<b>Total Certificateholder Benefits &amp; Expenses</b>	<b>1,205</b>	<b>857</b>
Income before income taxes	52	66
<b>Income Taxes</b>		
Current	24	11
Deferred	(7)	2
<b>Total Income Taxes</b>	<b>17</b>	<b>13</b>
<b>Net Income</b>	<b>35</b>	<b>53</b>
<b>Other Comprehensive Income</b>		
Net unrealized gains on available-for-sale assets, net of income tax expense of \$1 (\$1 in 2010)	11	75
Reclassification of net realized gains on available-for-sale assets, net of income tax recovery to net income	(21)	(40)
Net actuarial losses on employee benefit plans, net of income tax recovery	(23)	(23)
Net unrealized gains (losses) on property	(1)	3
Net unrealized foreign currency translation gains (losses)	31	(39)
	(3)	(24)
<b>Total Comprehensive Income</b>	<b>\$ 32</b>	<b>\$ 29</b>

## Summary Consolidated Statements of Financial Position

As at December 31, 2011 with comparative figures for 2010 (In millions of Canadian dollars)

	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
<b>Assets</b>			
<b>Invested Assets</b>			
Cash, cash equivalents and short-term securities	\$ 190	\$ 274	\$ 100
Bonds	5,093	4,152	4,079
Bonds on loan	-	227	359
Equities	572	564	643
Equities on loan	-	54	44
Mortgages	8	8	15
Derivative financial instruments	72	85	79
Other invested assets	78	53	52
Loans to certificate holders	269	186	195
<b>Total Invested Assets</b>	<b>6,282</b>	<b>5,603</b>	<b>5,566</b>
Reinsurance assets	186	138	127
Other assets	168	110	106
Property and equipment	34	29	22
Employee benefit assets	32	54	72
Goodwill and intangible assets	189	13	-
	<b>6,891</b>	<b>5,947</b>	<b>5,893</b>
Net investments for accounts of segregated fund unit holders	1,697	698	599
<b>Total Assets</b>	<b>\$ 8,588</b>	<b>\$ 6,645</b>	<b>\$ 6,492</b>
<b>Liabilities</b>			
Insurance contract liabilities	\$ 5,023	\$ 4,190	\$ 4,179
Investment contract liabilities	158	156	163
Benefits payable and provision for unreported claims	94	62	53
Other liabilities	136	96	91
Employee benefit obligation	36	31	24
	<b>5,447</b>	<b>4,535</b>	<b>4,510</b>
Investment contract liabilities for accounts of segregated fund unit holders	1,697	698	599
<b>Total Liabilities</b>	<b>7,144</b>	<b>5,233</b>	<b>5,109</b>
<b>Surplus</b>			
Retained earnings	1,390	1,378	1,348
Accumulated other comprehensive income	54	34	35
	<b>1,444</b>	<b>1,412</b>	<b>1,383</b>
<b>Total Liabilities And Surplus</b>	<b>\$ 8,588</b>	<b>\$ 6,645</b>	<b>\$ 6,492</b>

## Notes to the Summary Financial Statements

### 1. Basis of Presentation of the Summary of Financial Statements

The summary consolidated statements of financial position and summary consolidated statements of comprehensive income have been summarized from Foresters consolidated financial statements, which are prepared in accordance with International Financial Reporting Standards to portray in summarized form Foresters financial position and results of operations. The criteria applied by management in the preparation of these summary financial statements are as follows:

- a. the information in the summary financial statements is in agreement with the related information in the audited financial statements; and
- b. summary statements of changes in equity, cash flows, significant accounting policies and other explanatory information have not been presented, as the relevant information can be obtained from the audited financial statements.

The summary statements of financial position and summary consolidated statements of comprehensive income are only a summary of information in Foresters consolidated financial statements for the year ended December 31, 2011. They do not contain sufficient information to allow as full an understanding of the results and state of affairs of Foresters as would be provided by the full consolidated financial statements for the year ended December 31, 2011.

The full consolidated financial statements are available at [foresters.com](http://foresters.com) under About Foresters/Financial Strength.

### 2. Basis of measurement

Foresters consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statements of financial position:

- Financial assets at fair value through profit or loss, available-for-sale financial assets and derivative financial instruments are measured at fair value;
- Employee benefit assets and liabilities represent the funded status of these plans which is calculated as the difference between plan assets at fair value and the present value of defined benefit obligations;
- Insurance contract liabilities are calculated using the Canadian Asset Liability Method (“CALM”). CALM is based on accepted actuarial practices according to standards established by the Canadian Institute of Actuaries and the requirements of the Office of the Superintendent of Financial Institutions Canada. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations, including the provision of fraternal benefits, and involves a significant amount of judgment; and
- Land is measured at fair value and buildings are carried at fair value less any accumulated depreciation and impairment loss.

## Report of The Independent Auditors on the Summary Consolidated Financial Statements

### To the Board of Directors of The Independent Order of Foresters

The accompanying summary consolidated financial statements of The Independent Order of Foresters, which comprise the summary consolidated statements of financial position as at December 31, 2011 and the summary consolidated statements of comprehensive income (loss) for the year then ended, and related notes, are derived from the audited consolidated financial statements, prepared in accordance with International Financial Reporting Standards, of The Independent Order of Foresters for the year ended December 31, 2011. We expressed an unmodified audit opinion on those financial statements in our report dated February 14, 2012.

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards applied in the preparation of the audited consolidated financial statements of The Independent Order of Foresters. Reading the summary financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of The Independent Order of Foresters.

### Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of the summary consolidated financial statements in accordance with the basis described in the notes to the summary consolidated financial statements.

### Auditors Responsibility

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "Engagements to Report on Summary Financial Statements."

### Opinion

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of The Independent Order of Foresters as at and for the year ended December 31, 2011 are a fair summary of those consolidated financial statements, in accordance with the basis described in the notes to the summary consolidated financial statements.



Chartered Accountants, Licensed Public Accountants  
February 14, 2012  
Toronto, Canada

## Appointed Actuary's report

### The Board of Directors, The Independent Order of Foresters

I have valued the policy liabilities in the consolidated statements of financial position of The Independent Order of Foresters as at December 31, 2011 and their change in the consolidated statements of comprehensive income for the years then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods and I expressed an opinion on these liabilities without reservation in my report dated February 14, 2012.

In my opinion, the amount of the liabilities contained in the accompanying summarized financial statements is consistent with the related complete consolidated financial statements.

These summarized consolidated financial statements do not contain all the disclosures required by accepted actuarial practice. Readers are cautioned that these statements may not be appropriate for their purposes. For more information on Foresters financial position, results of operations and cash flows, reference should be made to the related complete consolidated financial statements.



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Fellow, Canadian Institute of Actuaries  
Toronto, Canada  
February 14, 2012