

The Independent  
Order of Foresters

Year ended  
December 31, 2012

# 2012 financial highlights

# Foresters financial strength

## Financial highlights for the year ended December 31, 2012

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

Foresters financial results were extremely positive despite the continued low interest rate environment throughout 2012.

- Total Comprehensive Income was \$66 million.
- The number of in force certificates has grown to over 1.3 million!
- Surplus increased by 5% to \$1.5 billion.
- Foresters Minimum Continuing Capital and Surplus Requirements ratio is well above regulatory levels and above the average of Canadian life insurers.

Commencing in 2011 Foresters financial results are being reported on an International Financial Reporting Standards (IFRS) basis. Prior to 2011, results were reported on a Canadian GAAP basis.

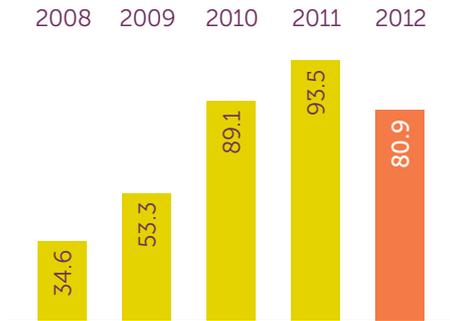
### Important member notices

1. Foresters 41st International Assembly will be held in Las Vegas, Nevada on June 22, 2013. Your elected representatives will elect the board of directors and approve amendments to the Constitution.
2. Foresters Report and Foresters website, [foresters.com](http://foresters.com), are its official publications (the Foresters Constitution is available at that website).
3. You will find official announcements about your membership on this website, including any constitutional amendments approved at the June 2013 International Assembly under "About Foresters".

# Sales

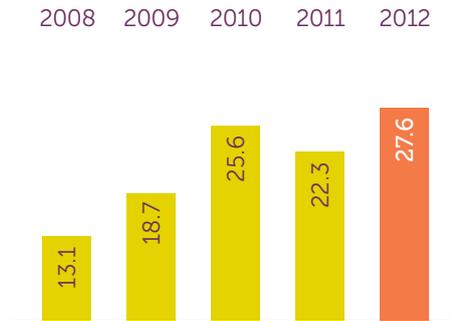
## Continued strong sales in 2012

### Foresters US Branch Total Annualized Sales (US \$ Millions)



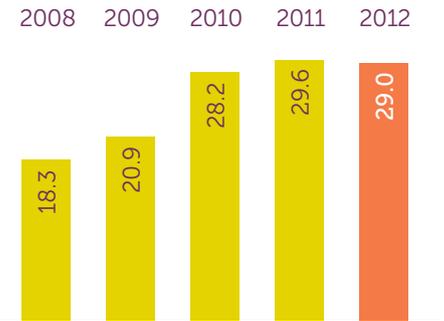
- Foresters U.S. Branch annualized weighted sales were US \$81 million. Total sales decreased by 13% largely due to product changes and pricing actions taken in response to the low interest rate environment. US industry sales of annualized individual life insurance rose by 6% in 2012 when compared to 2011.<sup>1</sup>
- Our two major insurance products are final expense (PlanRight) and term (Strong Foundation/Lifefirst).
- Both of these products were designed to meet the current insurance needs of Americans.

### Foresters Canada Total Annualized Sales (CDN \$ Millions)



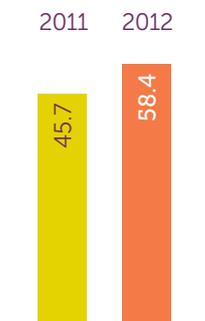
- Canadian annualized weighted sales were \$28 million, a 24% increase over 2011. This increase was due to strong growth in the individual life insurance sales of 31%, which reflected the continued expansion of the division's distribution network, and in group creditor sales, of 22% over 2011. The individual life insurance sales results were exceptional considering the industry average growth in 2012 was only 6%.<sup>2</sup>
- During the year it was decided to exit the Preneed line of business due to declining returns; and consequently, sales in this line decreased 4% in 2012 as the transition began.

### Foresters UK Total Annualized Sales (UK £ Millions)



- United Kingdom annualized weighted sales were £29 million, a 1.8% decrease over 2011.
- Approximately 90% of the business is investment business, which fell by 2.3% compared with a fall of 10.2% in the UK market.<sup>3</sup>
- The reduction of Foresters business was mainly due to the phasing out of UK government supported Child Trust Funds.
- On December 21, 2012, Forester Life signed a Transfer of Engagements agreement to acquire the assets of The Children's Mutual. The transfer completed on April 3, 2013 and following this Assets Under Management increased to £2.8 billion.

### Foresters US – First Investors Consolidated Corporation Total Annualized Sales (US \$ Millions)



- Total Annualized weighted sales were \$58 million, an increase of 27% over 2011.
- On an unweighted basis total Mutual Fund sales for the year were \$910 million, up 27% from \$718 million the year before.
- Annualized life and annuity sales were \$17.3 million, up 11% over the prior year, a significant achievement compared to the decline in average U.S. annualized life and annuity industry sales of

- 7% in 2012<sup>4</sup>. Improvements were seen in sales of First Investors variable life and annuities, fixed deferred annuities and Foresters life products.
- Strong sales results were due in part to changes made to First Investors sales model in the latter part of the year.

<sup>1</sup> Source: Fourth Quarter 2012 LIMRA's US Individual Life Insurance Sales Report. <sup>2</sup> Source: Fourth Quarter 2012 LIMRA's Canadian Individual Life Insurance Sales Report. <sup>3</sup> Source: The Association of British Insurers Q4, 2012 Summary Table 1 – Summary of New Business Premiums. <sup>4</sup> Source: Fourth Quarter 2012 LIMRA's US Individual Life and Annuity Insurance Sales Report. 404605 CAN/US/UK (04/13)

# Key results

Very good results in a persistent low interest rate environment

## Premiums (\$ Millions)

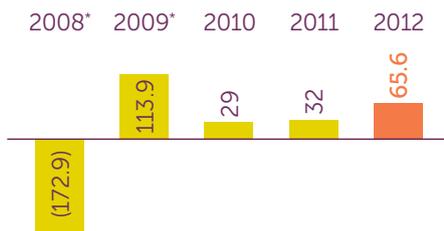


\*Restated to reflect impact of IFRS accounting on gross reported premiums.

Total gross premiums were \$588 million, an 11% increase over 2011.

Premium revenue has increased steadily since 2008 due to organic growth and strategic acquisitions which grew the business.

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



\*Pre IFRS accounting standards.

Total Comprehensive Income was \$66 million in 2012. These are good results considering the current low interest rate environment. There has been an upward trend to earnings over the last several years following 2008 and 2009 when earnings were quite volatile due to worldwide economic conditions at the time.

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



\*Pre IFRS accounting standards.

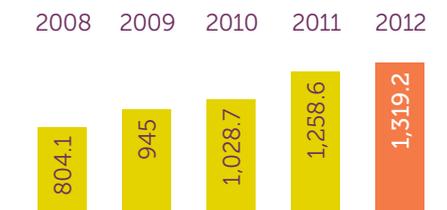
One way of measuring the long-term health of Foresters is by our total surplus. Surplus is a measurement of the value of our assets less our financial obligations to members and others. At Foresters, we use our surplus to deliver our fraternal purpose through investment in our communities, to grow the 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. During 2012, Foresters increased its surplus to \$1.5 billion.

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 376% at December 31, 2012.

This ratio is well above the average of Canadian life insurers, which was 213% at December 31, 2012. Our very healthy surplus gives us significant financial strength, and the ability to continue to grow our organization.

## Certificates In-force (Thousands)

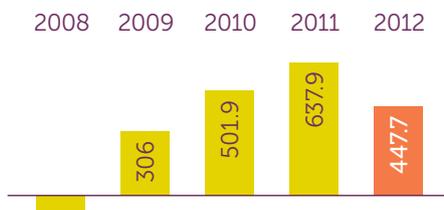


During 2012 our certificates in force grew by 61,000 with increases in each of the U.S., Canada and the U.K.

Since 2008, the number of in force certificates has grown by more than 500,000 to over 1.3 million.

And thanks to economies of scale, our expenses to handle these certificates are increasing 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.

## 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. Foresters bond holdings, with an average rating of AA-, make up 82% 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).

Foresters investments performed well during 2012 as interest rates continued to decline. The decline was less than experienced in 2011 which led to a weaker performance for our fixed income portfolios compared to the previous year. Strong equity returns in all three countries also contributed to the positive results.

## Summary Consolidated Statements of Comprehensive Income

For the year ended December 31, 2012 with comparative figures for 2011 (In millions of Canadian dollars)

	2012	2011
<b>Revenue</b>		
Gross written premiums	\$ 588	\$ 528
Ceded premiums	(69)	(58)
<b>Net Written Premiums</b>	<b>519</b>	<b>470</b>
<b>Net Investment Income</b>		
Interest and dividends (net)	243	241
Net realized gains	127	161
Net unrealized gains on fair value through profit and loss investments	74	240
Net foreign currency losses on available-for-sale assets	4	(4)
<b>Total Investment Income</b>	<b>448</b>	<b>638</b>
Other operating income	171	149
<b>Total Revenue</b>	<b>1,138</b>	<b>1,257</b>
<b>Benefits &amp; Expenses</b>		
Gross benefits	432	398
Ceded benefits	(36)	(26)
Gross change in insurance contract liabilities	135	351
Ceded change in insurance contract liabilities	(31)	(40)
Dividends	37	38
Commissions	241	230
Operating expenses	271	256
Ceded commissions and operating expenses	(21)	(19)
Fraternal investment	17	17
<b>Total Benefits &amp; Expenses</b>	<b>1,045</b>	<b>1,205</b>
Income before income taxes	93	52
<b>Income Taxes</b>		
Current	14	24
Deferred	-	(7)
<b>Total Income Taxes</b>	<b>14</b>	<b>17</b>
<b>Net Income</b>	<b>79</b>	<b>35</b>
<b>Other Comprehensive Income (Loss)</b>		
Net unrealized gains on available-for-sale assets, net of income tax expense of \$nil (\$1 in 2011)	33	11
Reclassification of net realized gains on available-for-sale assets, net of income tax recovery to net income	(15)	(21)
Net actuarial losses on employee benefit plans, net of income tax recovery	(7)	(23)
Net unrealized gains (losses) on property	1	(1)
Net unrealized foreign currency translation gains (losses)	(25)	31
	(13)	(3)
<b>Total Comprehensive Income</b>	<b>\$ 66</b>	<b>\$ 32</b>

## Summary Consolidated Statements of Financial Position

As at December 31, 2012 with comparative figures for 2011 (In millions of Canadian dollars)

	Dec 31, 2012	Dec 31, 2011
<b>Assets</b>		
<b>Invested Assets</b>		
Cash, cash equivalents and short-term securities	\$ 237	\$ 190
Bonds	5,235	5,093
Equities	499	572
Mortgages	7	8
Derivative financial instruments	64	72
Other invested assets	109	78
Loans to certificate holders	266	269
<b>Total Invested Assets</b>	<b>6,417</b>	<b>6,282</b>
Reinsurance assets	217	186
Other assets	174	168
Property and equipment	34	34
Employee benefit assets	21	32
Goodwill and intangible assets	197	189
	7,060	6,891
Net investments for accounts of segregated fund unit holders	1,960	1,697
<b>Total Assets</b>	<b>\$ 9,020</b>	<b>\$ 8,588</b>
<b>Liabilities</b>		
Insurance contract liabilities	\$ 5,110	\$ 5,023
Investment contract liabilities	156	158
Benefits payable and provision for unreported claims	101	94
Other liabilities	145	136
Employee benefit obligation	38	36
	5,550	5,447
Investment contract liabilities for accounts of segregated fund unit holders	1,960	1,697
<b>Total Liabilities</b>	<b>7,510</b>	<b>7,144</b>
<b>Surplus</b>		
Retained earnings	1,462	1,390
Accumulated other comprehensive income	48	54
	1,510	1,444
<b>Total Liabilities and Surplus</b>	<b>\$ 9,020</b>	<b>\$ 8,588</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, 2012. 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, 2012.

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 practice 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, 2012 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, 2012.

We expressed an unmodified audit opinion on those financial statements in our report dated February 12, 2013.

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, 2012 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 12, 2013  
Toronto, Canada

## Appointed Actuary's report

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

I have valued the contract liabilities in the consolidated statements of financial position of The Independent Order of Foresters as at December 31, 2012 and their change in the consolidated statements of comprehensive income for the year 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 12, 2013.

In my opinion, the change in contract liabilities contained in the accompanying summary consolidated financial statements is a fair summary of the change in contract liabilities in the related complete consolidated financial statements.

These summary 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 cashflows, reference should be made to the related complete consolidated financial statements.



Terence M Mawhinney, F.S.A., F.C.I.A., M.A.A.A.  
Fellow, Canadian Institute of Actuaries  
Toronto, Canada  
February 12, 2013