

# 2009 Financial Highlights

The Independent Order  
of Foresters

Year ended  
December 31, 2009

# Management's Discussion and Analysis

## Financial Highlights for the Year Ended December 31, 2009

All amounts are in millions of Canadian dollars, unless otherwise stated.

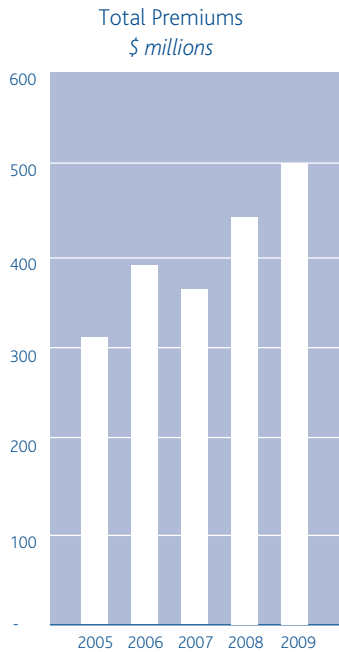
*This section highlights Foresters financial and business performance for the period 2005–2009. It is designed to illustrate trends and enhance understanding of Foresters financial results, distribution, business and organizational strategy, as well as its investment and accounting policies.*

### Key Performance Measures

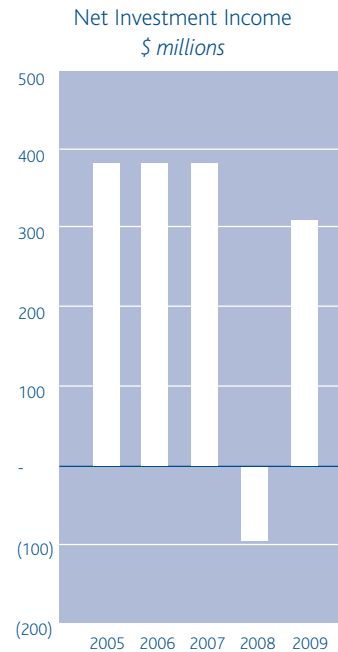
#### Exceptional Achievements

- Exceptional sales growth
- Solid profits from insurance operations
- Strong capital base with Canadian MCCR of 432% compared to regulatory minimum of 150%
- Return on equity of 6.8%
- A (Excellent) rating by A.M. Best\*
- Total assets over \$6 billion
- Acquired MetLife Canada's remaining Canadian business (\$300 million in total assets)
- Improved unit costs

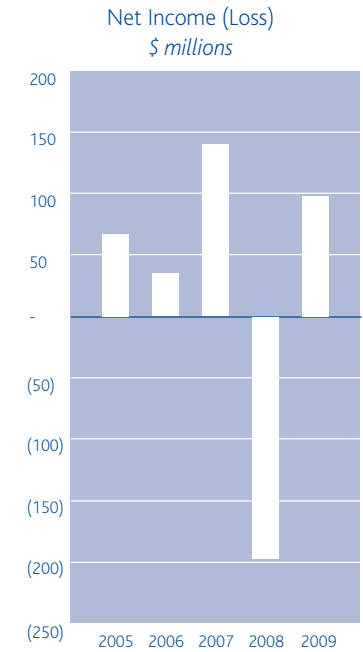
\*Foresters financial strength, as measured by A.M. Best Company, is rated "A" (Excellent). An "A" (Excellent) rating is assigned to companies that have a strong ability to meet their ongoing obligations to policyholders and have, on balance, excellent balance sheet strength, operating performance and business profile when compared to the standards established by A.M. Best Company. In assigning our rating, A.M. Best stated that Foresters rating outlook is "stable", which means it is unlikely to change in the near future, assuming our financial strength is maintained and our operations grow. A.M. Best assigns ratings from A++ to F, A++ being superior ratings and A and A- being excellent ratings.



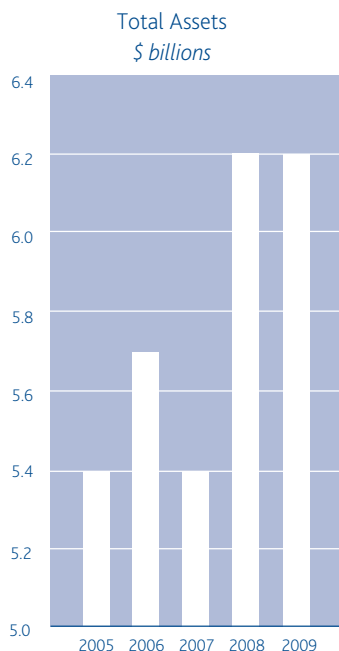
Total premiums have seen steady growth, 58.9% since 2005



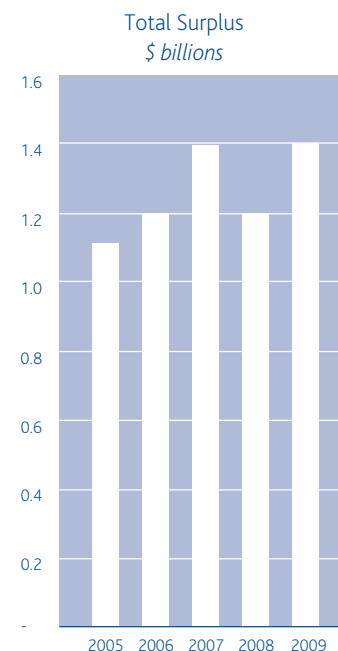
Steady investment returns with the exception of 2008 which reflected worldwide market declines



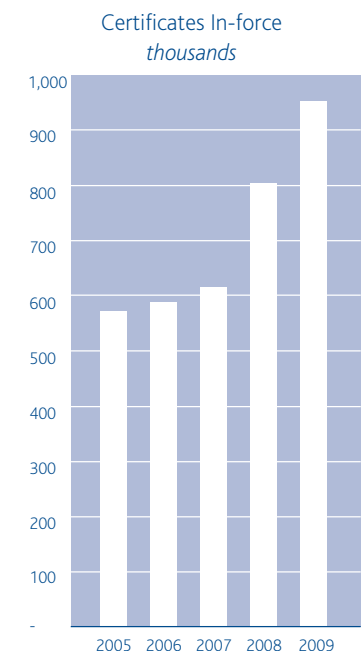
Positive net income for each year except 2008 when market declines led to \$197 million loss



Foresters consolidated assets total over \$6 billion



Surplus remains strong and has recovered significantly after the 2008 market declines



Strong U.S. and U.K. sales growth and acquisition of the insurance business of MetLife Canada in 2009 and Unity Life in 2008 have contributed to a 68% increase since 2005

## Statement of Income – Overview of Operating Results – 2009

Consolidated net income for 2009, representing Foresters revenues less expenses and taxes, was \$96 million compared to a consolidated net loss of \$197 million in 2008.

In 2009, Foresters net income benefited from a return to more favorable market conditions, including improvements in equity markets and interest rates. Foresters avoided taking significant impairment losses in 2009 by following a prudent and conservative investment policy. Additionally, Foresters was able to reduce its unit costs in the future as a result of operating efficiencies and a significant improvement in sales in 2009.

### Acquisitions

Foresters subsidiary, Unity Life of Canada (“Unity Life”) continued its history of successfully acquiring profitable blocks of business with the acquisition of the insurance business of MetLife Canada. As a result, the number of policies in-force under the Foresters umbrella increased by about 95,000 and total assets increased by almost \$300 million.

### Revenue

#### Premium Income

Insurance premiums reached \$383 million in 2009, an increase of \$30 million over 2008. Strong sales in the United States and steady growth in the United Kingdom and Canada have all contributed to this significant increase in top-line revenue.

Annuity premiums and niche products sales of \$114 million in 2009 included \$66 million in annuities and \$48 million in niche products. Niche products include group creditor and funeral pre-planning business.

#### Net Investment Income

Net investment income is comprised of interest, dividends, net rental income, realized gains and losses on the sale of investments and unrealized gains and losses resulting from changes in the market value of certain investments less the expenses incurred to manage Foresters investments. Net investment income was \$306 million compared to a net investment loss of \$95 million in 2008 resulting from the substantial improvement in worldwide equity markets.

### Certificateholder Benefits and Expenses

Certificateholder benefits and expenses include changes to actuarial liabilities, benefits and dividends paid, agent compensation and operating expenses, as well as fraternal investment.

#### Certificateholder Benefits and Dividends

Certificateholder benefits represent all payments to members, and include death benefits, surrenders, annuity payments, dividends and payment of fraternal benefits. Payments to members of \$430 million increased by 4%.

#### Change in Actuarial Liabilities

The increase in actuarial liabilities due to new business added during the year was mostly offset by decreases from improved investment returns and mortality assumptions, and reduced unit maintenance expense assumptions.

#### Agent Compensation and Operating Expenses

Agent compensation increased to \$112 million in 2009 compared to \$93 million in 2008 mainly as a result of continued strong sales.

Operating expenses of \$149 million in 2009 increased only marginally over the prior year, even with the significant growth in sales. The ratio of expenses to total premiums decreased from 33% in 2008 to 30% in 2009. The continued improvement in this ratio was achieved by a strong management focus on expense reduction in Foresters core life business and related variable costs.

### Balance Sheet Overview

#### Invested Assets

Foresters uses a “prudent person” approach in managing its investments. The goal is to protect members’ assets, while providing reasonable growth and income. The result is a conservative, balanced approach characterized by:

- Investing in high quality securities – 56% of our total portfolio of invested assets is made up of bonds and fixed income securities with an average rating of AA or better;
- Maintaining a large surplus balance that allows management to take a longer-term view for the investments in this fund. Currently Foresters has significant equity holdings representing about 16% of Foresters investments at December 31, 2009; and

### Executive Leadership Team

#### George Mohacsi

*President and Chief Executive Officer*

#### Euan Allison

*Group Managing Director, United Kingdom Division*

#### Kasia Czarski

*Senior Vice President, Chief Membership and Marketing Officer*

#### Sharon Giffen

*Senior Vice President and Chief Financial Officer*

#### Suanne M. Nielsen

*Senior Vice President and Chief Talent Officer*

#### Christopher Pinkerton

*President, U.S. Division*

#### Anthony Poole

*President, Canada Division*

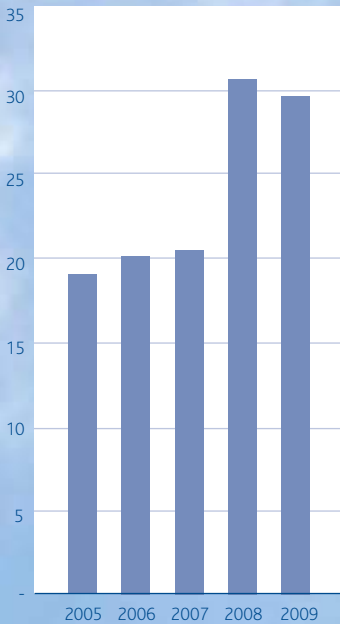
#### Katharine Rounthwaite

*Senior Vice President, General Counsel, Chief Compliance Officer and Executive Secretary*

#### Peter Sweers

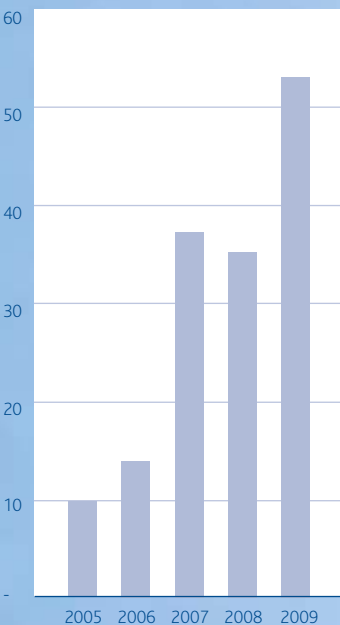
*Senior Vice President and Chief Operations and Information Officer*

Worldwide total insurance in-force \$ billions



Removing the impact of the strengthening of the Canadian dollar against the U.S. dollar, insurance in-force would have grown to \$32.8 billion

U.S. Division Total Annualized Sales U.S. \$ millions



Increased sales since 2007 are due to the positive impact of the move to an independent distribution model

- Emphasizing the matching of assets to the related liabilities in terms of currency, duration and liquidity to reduce sensitivity to changes in economic conditions.

**Surplus and Solvency**

Financial strength is critical for future growth through new sales, acquisitions and expanding distribution networks. Foresters continues to maintain a strong surplus position and solvency ratios significantly in excess of local regulatory requirements in all three countries in which Foresters operates.

Surplus of \$1.4 billion reported at the end of 2009 increased by \$114 million over the prior year, primarily due to net income earned in the year. Return on equity was 6.8% in 2009 compared to a negative 13.5% in 2008.

Foresters consolidated Minimum Continuing Capital and Surplus Requirement (“MCCSR”) ratio was 432%

at the end of 2009, well above the average for Canadian insurers of 231%. The Risk Based Capital ratio for Foresters U.S. Branch at 564% and the Free Asset Ratio for the U.K. operation at 7% remain strong.

**Total Assets and the Impact of Foreign Currency**

Foresters conducts the majority of its business in the U.S. and is therefore subject to fluctuations in foreign exchange rates between the U.S. and Canadian dollars and, to a lesser extent, the U.K. pound sterling. The strengthening of the Canadian dollar in 2009 relative to the U.S. dollar had a significant impact on Foresters Canadian dollar results. Increases in total assets from operations and improvements in stock markets were wholly offset by the weaker U.S. dollar, leaving total assets of \$6.2 billion unchanged from the prior year.

**Sales Results and Plans by Division**

 **United States Division**

**MAJOR PRODUCTS**

Protection	Investment
Final expense whole life	Deferred annuity
Universal life	Immediate annuity
Term life	Equity indexed annuity

In 2009, the U.S. division achieved annualized sales of protection products of U.S. \$52 million, a 59% increase over 2008; investment sales were U.S. \$15 million. This was a significant achievement in a challenging economic environment, where the overall industry sales were down from the prior year. PlanRight, the new final expense product, achieved excellent sales of \$13 million from its launch date in March. Its success, partly attributable to the rapid underwriting decision process, contributed to the division’s ability to attract new agents – the total of which grew by 83% to over 22,000 at the end of 2009.

In 2010, the U.S. division will continue to deepen relationships with distribution partners and independent agents through improved service capabilities, high-touch marketing and reinforcing the uniqueness of the relationship with Foresters by providing opportunities to become involved in their local communities through Foresters sponsored events. In addition, the U.S. division will continue to focus on ensuring that its products remain profitable, and promote quality business and improved persistency with our distributors.



## Canadian Division



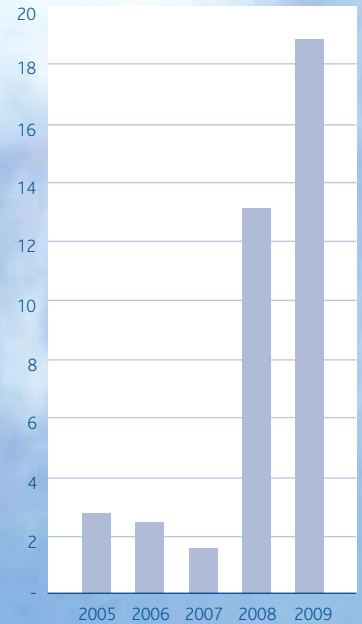
### MAJOR PRODUCTS

Protection	Investment
Whole life	Registered (RRSP) and non-registered investment certificates
Universal life	Immediate annuity
Term life	Tax-free savings account (TFSA)
Critical illness	Segregated funds
Funeral pre-planning	
Group creditor	

In 2009, annualized protection sales in Canada reached \$13 million while sales of niche products (group creditor and funeral pre-planning coverage) and investment products were \$62 million. Sales increased 12% over 2008. This growth was significantly stronger than the Canadian insurance industry average. In Canada, products are sold through a distribution network of over 2,200 independent brokers, third-party marketers and contracted distribution partnerships.

Looking forward to 2010, the Canadian division expects another exciting year as it will continue the strategy of delivering competitive products, serving the needs of niche markets, and enhancing distribution relationships and member service.

Canadian Division  
Total Annualized Sales  
CDN. \$ millions



Increased sales since 2008 are due to the acquisition of Unity Life



## United Kingdom Division

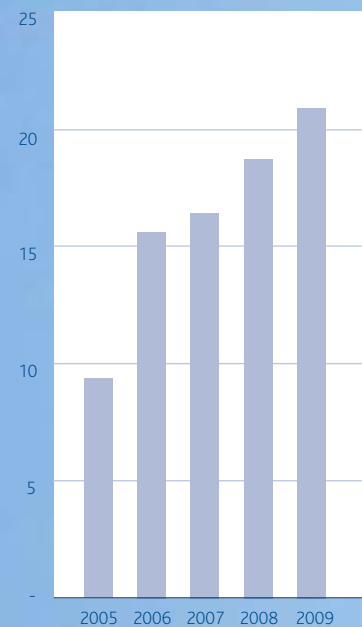
### MAJOR PRODUCTS

Protection	Investment (savings)
<b>Lifestyle protection options</b> • (life cover, critical illness and income protection)	Individual Savings Account
<b>Mortgage protection options</b> • (life cover and critical illness)	Child Trust Fund
	Savings and investment plan
	Deferred annuity

In 2009, annualized sales of investment and savings products totaled £21 million, an increase of 14% over 2008. Sales of these products were helped by a recovery in the stock market and also by an increase in investment limits for some tax-free savings accounts. In particular, sales of Individual Savings Accounts were strong, rising by 28% compared with 2008 while Child Trust Funds increased by 17%. The U.K. division's underlying fundamentals continue to be positive, with rising sales and increasing productivity from the 122 advisers.

In 2010, the U.K. division intends to pursue its strategy of organic growth through its direct sales force and will examine the future implementation of online distribution for savings products.

U.K. Division  
Total Annualized Sales  
U.K. £ millions



Steady growth in sales since 2005

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## Summarized Consolidated Balance Sheets

As at December 31, 2009, with comparative figures for 2008 (in millions of Canadian dollars)

	2009	2008
<b>Assets</b>		
Investments		
Cash and short-term securities	\$ 111	\$ 98
Bonds and other fixed-term securities	4,631	4,671
Mortgages	15	21
Stocks	962	969
Real estate	21	27
Loans to certificateholders	194	215
Other invested assets	132	105
	<u>6,066</u>	<u>6,106</u>
Other assets	106	95
<b>Total assets</b>	<u>\$ 6,172</u>	<u>\$ 6,201</u>
<b>Liabilities and Surplus</b>		
Actuarial liabilities	\$ 4,585	\$ 4,714
Other insurance certificate and contract liabilities	122	140
Other liabilities	89	80
Deferred net gains realized on disposal of investments	19	24
	<u>4,815</u>	<u>4,958</u>
<b>Total liabilities</b>	<u>4,815</u>	<u>4,958</u>
<b>Surplus</b>		
Retained earnings	1,458	1,362
Accumulated other comprehensive income (loss)	(101)	(119)
	<u>1,357</u>	<u>1,243</u>
<b>Total surplus</b>	<u>1,357</u>	<u>1,243</u>
<b>Total liabilities and surplus</b>	<u>\$ 6,172</u>	<u>\$ 6,201</u>

## Summarized Consolidated Statements of Comprehensive Income (Loss)

For the year ended December 31, 2009, with comparative figures for 2008 (in millions of Canadian dollars)

	2009	2008
<b>Revenue</b>		
Premiums	\$ 497	\$ 451
Net investment income (loss)	306	(95)
Other income	10	22
	<u>813</u>	<u>378</u>
<b>Certificateholder benefits and expenses</b>		
Certificateholder benefits	387	367
Change in actuarial liabilities	4	(104)
Dividends to members	43	45
Agent compensation	112	93
Operating expenses	149	147
Fraternal investment	18	17
	<u>713</u>	<u>565</u>
<b>Income (loss) before income taxes</b>	100	(187)
<b>Income taxes</b>	4	10
<b>Net income (loss)</b>	\$ 96	\$ (197)
Other comprehensive income	18	24
<b>Total comprehensive income (loss)</b>	<u>\$ 114</u>	<u>\$ (173)</u>

The Summarized Consolidated Balance Sheets and Summarized Consolidated Statements of Income have been derived from Foresters Consolidated Financial Statements, which are prepared in accordance with Canadian generally accepted accounting principles and are available at [www.foresters.com](http://www.foresters.com) under About Us/Financial Strength.

## Auditors' Report on Summarized Financial Statements

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

The accompanying summarized consolidated balance sheets and summarized consolidated statements of comprehensive income (loss) are derived from the complete consolidated financial statements of The Independent Order of Foresters ("Foresters") as at December 31, 2009 and for the year then ended on which we expressed an opinion without reservation in our report dated February 17, 2010. The fair summarization of the complete consolidated financial statements is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the summarized consolidated financial statements.

In our opinion, the accompanying consolidated financial statements fairly summarize, in all material respects, the related complete consolidated financial statements in accordance with the criteria described in the Guideline referred to above.

These summarized consolidated financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles. 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.



Chartered Accountants, Licensed Public Accountants  
Toronto, Canada  
February 17, 2010

## Appointed Actuary's Report

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

I have valued the policy liabilities in the consolidated balance sheets of The Independent Order of Foresters as at December 31, 2009 and, except as noted in the following paragraph, their change in the consolidated statements of income (loss) 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 17, 2010.

I became the Appointed Actuary on July 1, 2009 and have relied upon the previous Appointed Actuary, Sharon Giffen, for the valuation as of December 31, 2008.

In my opinion, the amount of policy 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.



Paul M. Winokur  
Fellow, Canadian Institute of Actuaries  
Toronto, Canada  
February 17, 2010

### IMPORTANT MEMBER NOTICE

The 40th International Assembly, held in Halifax Nova Scotia from June 15–16, 2009, elected its Board of Directors, and amended Foresters Constitution. A summary of these amendments and the 2009 Constitution approved at the International Assembly are posted on Foresters website in the About Us section, under How Foresters is Organized.

Each Voting Member has the right to participate in Foresters system of representative government through voting in Branch elections, and in holding office. Branch Elections are being held in fall 2010 and spring 2011.