



Consolidated Financial Statements of

**THE INDEPENDENT ORDER OF
FORESTERS**

Year ended December 31, 2010

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MANAGEMENT STATEMENT ON RESPONSIBILITY FOR FINANCIAL REPORTING

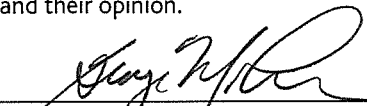
The consolidated financial statements have been prepared by management, who are responsible for their integrity, objectivity and reliability. Canadian generally accepted accounting principles including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI") have been applied and management has exercised its judgment and made best estimates where deemed appropriate. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of The Independent Order of Foresters ("Foresters") within reasonable bounds of materiality.


Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of Foresters. Management maintains an extensive system of internal accounting controls designed to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy of operation of the control systems is monitored by an internal audit department.

The Board of Directors, acting through the Audit, Risk and Investment Committee, which comprises directors who are not officers or employees of Foresters, oversees management responsibility for the financial reporting and internal control system.

The Appointed Actuary is appointed by the Board of Directors to carry out an annual valuation of liabilities for future benefits. In performing this valuation, the Appointed Actuary is responsible for ensuring that the assumptions and methods used in the valuation of actuarial liabilities are in accordance with accepted actuarial practice and requirements. The Appointed Actuary is required to provide an opinion regarding the appropriateness of actuarial liabilities at the balance sheet date to meet all certificateholders' obligations using the relevant Standards of Practice of the Canadian Institute of Actuaries. Examination of supporting data for accuracy and completeness and analysis of assets for their ability to support the amount of actuarial liabilities are important elements of the work required to form this opinion. In carrying out his work the Appointed Actuary makes use of the work of the internal audit department and the external auditors, KPMG LLP. The Appointed Actuary's Report outlines the scope of the valuation and the Actuary's opinion. The Appointed Actuary is also required each year to analyze the financial condition of Foresters and prepare a report for the Board of Directors. The analysis tests the capital adequacy of Foresters under plausible adverse conditions.

Foresters engages external auditors to express an opinion on the financial statements. Their responsibility is to carry out an independent and objective audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and report regarding the fairness of presentation of Foresters consolidated financial statements in accordance with Canadian generally accepted accounting principles including the accounting requirements of OSFI. In carrying out their audit, the auditors also make use of the work of the Appointed Actuary and his report on the actuarial liabilities. The auditors' report outlines the scope of their audit and their opinion.


George Mohacsi
Chief Executive Officer


Sharon Giffen, F.S.A., F.C.I.A., M.A.A.A.
Chief Financial Officer

Toronto, Canada
February 15, 2011



KPMG LLP
Chartered Accountants
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of The Independent Order of Foresters

We have audited the accompanying consolidated financial statements of The Independent Order of Foresters, which comprise the consolidated balance sheets and the statements of segregated funds' net assets as at December 31, 2010 and 2009, the consolidated statements of income, comprehensive income, surplus, cash flows and changes in segregated funds for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Independent Order of Foresters and its segregated funds as at December 31, 2010 and 2009, and the results of its operations, its cash flows and changes in net assets of its segregated funds for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

February 15, 2011
Toronto, Canada

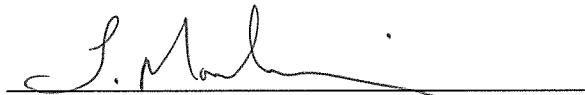
APPOINTED ACTUARY'S REPORT

The Board of Directors, The Independent Order of Foresters

I have valued the actuarial and other certificate liabilities in the consolidated balance sheet of The Independent Order of Foresters as at December 31, 2010 and, except as noted in the following paragraph, their change in the consolidated statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

I became the Appointed Actuary on January 1, 2011 and have relied upon the previous Appointed Actuary, Paul M. Winokur, for the valuation as of December 31, 2009.

In my opinion, the amount of actuarial and other certificate liabilities makes appropriate provision for all certificateholders' obligations and the consolidated financial statements fairly present the results of the valuation.



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

February 15, 2011

THE INDEPENDENT ORDER OF FORESTERS

Consolidated Balance Sheets

As at December 31 (In thousands of Canadian dollars)

	2010	2009
Assets		
Investments (note 4)		
Cash and short-term securities	\$ 271,399	\$ 109,918
Bonds and other fixed-term securities	4,629,228	4,631,022
Mortgages	7,915	15,317
Stocks	953,307	962,242
Real estate	26,184	21,069
Loans to certificateholders	185,794	194,496
Other invested assets	138,187	131,500
	<u>6,212,014</u>	<u>6,065,564</u>
Other assets		
Interest due and accrued	49,267	51,461
Other assets	77,295	55,334
	<u>126,562</u>	<u>106,795</u>
Total assets	\$ 6,338,576	\$ 6,172,359

(See accompanying notes)

THE INDEPENDENT ORDER OF FORESTERS

Consolidated Balance Sheets

As at December 31 (In thousands of Canadian dollars)

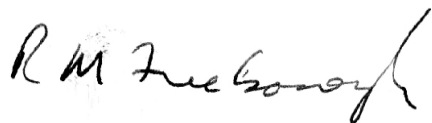
	2010	2009
Liabilities and Surplus		
Liabilities		
Actuarial liabilities (note 7)		
Insurance	\$ 3,345,522	\$ 3,289,641
Annuities	1,046,394	1,017,557
Fraternal	283,620	278,115
	<u>4,675,536</u>	<u>4,585,313</u>
Other insurance certificate and contract liabilities		
Benefits payable and provision for unreported claims	63,506	53,889
Certificateholders' amounts on deposit	65,096	68,185
	<u>128,602</u>	<u>122,074</u>
Other liabilities	92,412	89,067
Deferred net gains realized on disposal of real estate	15,640	18,589
	<u>92,412</u>	<u>89,067</u>
Total liabilities	<u>4,912,190</u>	<u>4,815,043</u>
Surplus	<u>1,426,386</u>	<u>1,357,316</u>
Total liabilities and surplus	<u>\$ 6,338,576</u>	<u>\$ 6,172,359</u>

Contingent liabilities (note 11)

Subsequent event (note 13)

(See accompanying notes)

On behalf of the Board:



Director



Director

THE INDEPENDENT ORDER OF FORESTERS

Consolidated Statements of Income

For the years ended December 31 (In thousands of Canadian dollars)

	2010	2009
Revenue		
Premiums		
Insurance	\$ 410,470	\$ 383,404
Annuities	159,216	113,813
Net investment income (note 4)	590,629	305,999
Other income	9,035	9,579
	<u>1,169,350</u>	<u>812,795</u>
Certificateholders' benefits and expenses		
Certificateholders' benefits	391,120	387,335
Change in actuarial liabilities (note 7)	296,425	3,810
Dividends	38,682	43,215
Agent compensation	142,664	111,852
Operating expenses	162,336	149,422
Fraternal investment	18,469	17,487
	<u>1,049,696</u>	<u>713,121</u>
Income before income taxes	<u>119,654</u>	<u>99,674</u>
Income taxes (note 8)		
Current	12,595	11,494
Future	1,234	(7,478)
	<u>13,829</u>	<u>4,016</u>
Net income	\$ 105,825	\$ 95,658

(See accompanying notes)

THE INDEPENDENT ORDER OF FORESTERS

Consolidated Statements of Comprehensive Income

For the years ended December 31 (In thousands of Canadian dollars)

	2010	2009
Net income	\$ <u>105,825</u>	\$ <u>95,658</u>
Other comprehensive income (loss)		
Unrealized gains on available-for-sale assets, net of income tax of \$907 (2009 – \$1,683)	75,547	109,615
Recognition of realized (gains) losses on available-for-sale assets, net of income tax of \$389 (2009 - \$76), to net income	(40,364)	72,413
Unrealized foreign currency translation losses	<u>(71,938)</u>	<u>(163,705)</u>
	<u>(36,755)</u>	<u>18,323</u>
Total comprehensive income	\$ <u>69,070</u>	\$ <u>113,981</u>

(See accompanying notes)

THE INDEPENDENT ORDER OF FORESTERS

Consolidated Statements of Surplus

For the years ended December 31 (In thousands of Canadian dollars)

	2010	2009
Retained earnings		
Balance, beginning of year	\$ 1,457,163	\$ 1,361,505
Net income	105,825	95,658
Balance, end of year	<u>\$ 1,562,988</u>	<u>\$ 1,457,163</u>
Accumulated other comprehensive loss*		
Balance, beginning of year	\$ (99,847)	\$ (118,170)
Other comprehensive income (loss)	(36,755)	18,323
Balance, end of year	<u>\$ (136,602)</u>	<u>\$ (99,847)</u>
Total surplus	<u>\$ 1,426,386</u>	<u>\$ 1,357,316</u>
* Accumulated other comprehensive loss, net of income taxes:		
Balance, end of year consists of:		
Unrealized gains on available-for-sale assets	\$ 74,812	\$ 39,629
Unrealized foreign currency translation losses	(211,414)	(139,476)
	<u>\$ (136,602)</u>	<u>\$ (99,847)</u>

(See accompanying notes)

THE INDEPENDENT ORDER OF FORESTERS

Consolidated Statements of Cash Flows

For the years ended December 31 (In thousands of Canadian dollars)

	2010	2009
Cash flows from operating activities		
Net income	\$ 105,825	\$ 95,658
Items not affecting cash:		
Increase in certificateholders' liabilities	296,425	3,810
Amortization of deferred net investment (gains) / losses	(2,436)	1,073
Change in fair value of investments	(310,304)	(50,029)
Amortization of premium and discount on bonds	(10,203)	(13,325)
Other non-cash items	(8,644)	7,859
Net change in other assets and other liabilities	(18,762)	(6,804)
Increase due to operating activities	<u>51,901</u>	<u>38,242</u>
Cash flows from investing activities		
Investments sold or matured:		
Bonds and other fixed-term securities	2,372,924	2,237,930
Stocks	520,480	815,998
Mortgages	6,814	-
Investments acquired:		
Bonds and other fixed-term securities	(2,316,911)	(2,403,036)
Stocks	(467,401)	(675,999)
Real estate	(5,258)	-
Other items, net	10,402	(8,726)
Acquisitions, net	-	13,599
Increase (decrease) due to investing activities	<u>121,050</u>	<u>(20,234)</u>
Foreign exchange loss on cash held in foreign currencies	<u>(11,470)</u>	<u>(6,387)</u>
Net increase in cash and cash equivalents for the year	161,481	11,621
Cash and cash equivalents, beginning of year	<u>109,918</u>	<u>98,297</u>
Cash and cash equivalents, end of year	<u>\$ 271,399</u>	<u>\$ 109,918</u>
Represented by:		
Cash	\$ 253,950	\$ 43,500
Short-term securities (note 4(b))	<u>17,449</u>	<u>66,418</u>
	<u>\$ 271,399</u>	<u>\$ 109,918</u>

(See accompanying notes)

THE INDEPENDENT ORDER OF FORESTERS

Consolidated Statements of Changes in Segregated Funds

For the years ended December 31 (In thousands of Canadian dollars)

	2010	2009
Net assets, beginning of year	\$ 132,851	\$ 123,272
Additions during the year		
Premiums from contractholders	11,398	14,398
Investment income	2,455	2,607
Net realized gains on sale of investments	3,897	2,903
Net change in unrealized gains on investments	4,619	15,919
	<u>22,369</u>	<u>35,827</u>
Deductions during the year		
Withdrawals by contractholders	24,788	24,157
Management fees and other operating costs	2,173	2,091
	<u>26,961</u>	<u>26,248</u>
Net assets, end of year	\$ 128,259	\$ 132,851

(See accompanying notes)

Consolidated Statements of Segregated Funds' Net Assets

As at December 31 (In thousands of Canadian dollars)

	2010	2009
Bonds *	\$ 21,341	\$ 22,714
Equities *	101,053	104,395
Cash and short-term securities *	5,713	5,793
Accrued investment income	257	302
Other assets	134	884
Liabilities	(239)	(1,237)
	<u>\$ 128,259</u>	<u>\$ 132,851</u>

* Foresters follows a fair value hierarchy to categorize the inputs used to measure fair value of assets. As at December 31, 2010, \$67,163 (2009 - \$66,571) of equities and cash were categorized as Level 1 assets (valued using quoted market prices) and \$60,944 (2009 - \$66,331) of bonds, short-term investments and investments in index funds were categorized as Level 2 assets (valued using models with observable inputs). No Level 3 assets were held during the year.

(See accompanying notes)

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

The Independent Order of Foresters ("Foresters") is a Fraternal Benefit Society, incorporated under the laws of Canada, and operates principally in the life insurance industry in the United States ("U.S."), Canada and the United Kingdom ("U.K."). Its operations cover the development and marketing of individual life and annuity products.

Foresters is subject to the Insurance Companies Act – Canada ("the Act"), and is regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). Under regulations and guidelines prescribed by OSFI, Foresters is required to maintain prescribed levels of capital (Minimum Continuing Capital and Surplus Requirement ("MCCSR")) which are dependent on the type and amount of insurance certificates in force and the nature of its assets. Foresters currently exceeds the capital requirements of OSFI. In addition, Foresters foreign branch and subsidiary operations are regulated by statutory authorities in the U.S. and the U.K. and must comply with local regulatory capital requirements.

1. Significant accounting policies

These consolidated financial statements have been prepared in accordance with the Act, which states that, except as otherwise specified by OSFI, the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies used in the preparation of these consolidated financial statements are summarized below. These accounting policies conform, in all material respects, to Canadian GAAP.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. The most significant estimates are related to the determination of actuarial liabilities that are discussed in note 7.

(a) Basis of consolidation

These financial statements include the accounts of Foresters and its subsidiaries Foresters Holdings (Europe) Ltd. ("FHE"), Unity Life of Canada ("Unity"), Sylvan Agency (Canada) Inc., Foresters Equity Services, Inc., and Foresters Financial Partners Holdings, Inc. Intercompany balances and transactions are eliminated.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

1. Significant accounting policies (continued)

(b) Invested assets

(i) Cash and short-term securities

Cash and short-term investments comprise cash, current operating accounts, overnight bank and term deposits.

(ii) Bonds and other fixed-term securities

Bonds are designated as either held-for-trading or available-for-sale. Purchases and sales of bonds are recognized on the balance sheets on the trade dates, the dates that Foresters commits to purchase or sell the bond.

The fair value of publicly traded bonds is determined using quoted market bid prices. For non-publicly traded bonds, fair value is determined using a discounted cash flow approach that includes provisions for credit risk and the expected maturities of the securities. Foresters does not have any bonds for which the fair value is determined using a valuation technique based on assumptions that are not supported by observable market prices or rates.

Held-for-trading bonds are recorded on the consolidated balance sheets at fair value, with realized gains and losses and changes in the fair value of these bonds recorded in net investment income on the consolidated statements of income.

Available-for-sale bonds are recorded at fair value with changes in the fair value of these bonds recorded in unrealized gains and losses on the consolidated statements of comprehensive income. Realized gains and losses on sale are reclassified from accumulated other comprehensive income ("AOCI") and recorded in net investment income on the consolidated statements of income.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

1(b) Significant accounting policies – Invested assets (continued)

(iii) Mortgages

Mortgages are classified as loans and receivables and are carried at amortized cost. The difference between the proceeds on sale and outstanding principal balance is recorded in net investment income on the consolidated statements of income.

The fair value of mortgages is calculated by discounting estimated cash flows using a market interest rate. The fair value of non-performing mortgages is based on estimated cash flows discounted using a rate which approximates the risk associated with the estimated cash flows.

(iv) Stocks

Stocks are designated as either held-for-trading or available-for-sale. Purchases and sales of stocks are recognized on the consolidated balance sheets on the trade dates, the dates that Foresters commits to purchase or sell the stocks.

The fair value of publicly traded stocks is determined using quoted market bid prices. For non-publicly traded stocks, fair value is estimated on the basis of dealer quotes or recent transactions of similar investments.

Held-for-trading stocks are recorded on the balance sheets at fair value, with realized gains (losses) and changes in the fair value of these stocks recorded in net investment income on the consolidated statements of income.

Available-for-sale stocks are recorded on the consolidated balance sheets at their fair values with changes in the fair value of these stocks recorded in unrealized gains (losses) on the consolidated statements of comprehensive income (loss). Realized gains (losses) on sale are reclassified from AOCI and recorded in net investment income on the consolidated statements of income.

(v) Real estate

Real estate held for investment, which includes own-use property, is carried at moving average market value whereby the carrying value of the portfolio is adjusted towards market value at 3.0% per quarter. Net realized gains (losses) are deferred and amortized to income at 3.0% per quarter on a declining balance basis. Fair values on each property are reviewed each year and external appraisals are carried out at least every three years by qualified appraisers. The fair value established is an estimate of the realizable value of each property and thus recognizes an element of depreciation in that determination. No further provision for depreciation is therefore required or calculated.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

1(b) Significant accounting policies – Invested assets (continued)

(vi) Loans to certificateholders

Loans to certificateholders are classified as loans and receivables and are carried at their unpaid balance. These loans are fully secured by the cash surrender value of the certificates on which the respective loans are made.

(vii) Other invested assets

Derivative financial instruments

Foresters utilizes certain derivative financial instruments in portfolios supporting actuarial liabilities in order to hedge against fluctuations in foreign exchange rates and stock market indices. These derivative financial instruments are classified as held-for-trading and are recorded on the consolidated balance sheets at fair value, with realized gains (losses) and changes in the fair value of these contracts recorded in net investment income on the consolidated statements of income. The fair value of derivative financial instruments is based on quoted market prices. For non-publicly traded derivatives, fair value is estimated on the basis of models and includes an element of credit risk.

Limited partnerships

Limited partnerships are classified as available-for-sale and are recorded on the consolidated balance sheets at cost plus Foresters pro-rata share of net income (loss) less any distributions paid. Where fair values are available, the cost of these assets is adjusted to fair value with changes in fair value recorded in unrealized gains (losses) on the consolidated statements of comprehensive income. Realized gains (losses) on sale are reclassified from AOCI and recorded in net investment income on the consolidated statements of income.

Segregated fund investments

Foresters manages a number of segregated funds on behalf of certificateholders. Substantially all risks and rewards of ownership accrue to segregated fund certificateholders; consequently, these assets are segregated and presented separately from Foresters general fund. The assets of these funds are carried at market values. Income earned from fund management fees is included in other income on the consolidated statements of income.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

1. Significant accounting policies (continued)

(c) Provisions for asset impairments

Foresters makes specific provisions against invested assets where there has been other than a temporary decline in the underlying value of an asset. When an asset is identified as impaired, the carrying value of the investment is reduced to the estimated realizable amount and a charge is included in income in the year in which the impairment in value is identified. Any further reduction in the estimated realizable amount subsequent to the initial recognition of impairment is included in income in the period in which the change occurs as a charge for impaired assets. Actuarial liabilities also include a margin for asset depreciation relating to future cash flows.

An impairment loss on available-for-sale bonds and other fixed term securities is reversed if there is objective evidence of a recovery in the value of the asset based on an event occurring after the impairment loss was initially recognized. Such a reversal is reflected in net income.

(d) Other assets

Other assets consist primarily of accounts receivable, fixed assets and intangible assets. Accounts receivable are carried at cost which approximates fair value. Fixed assets and intangible assets are carried at cost less accumulated depreciation.

Computer software is recognized as an intangible asset. Computer software is carried at its cost less accumulated amortization. Any computer software expenditures under \$100 must be expensed whether they are purchased or in-house developed software. The cost of computer software is depreciated on a straight-line basis over three and five years when the capitalized cost is less than \$1.0 million and more than \$1.0 million respectively.

(e) Actuarial liabilities

Actuarial liabilities have been calculated using the Canadian Asset Liability Method ("CALM"). Actuarial liabilities represent an estimate of the amount, which together with future premiums and investment income will be sufficient to pay future benefits, dividends and expenses on insurance and annuity contracts. The carrying value of actuarial liabilities is based on the present value of expected cash flows plus provisions for adverse deviation and is considered to be an indicator of fair value, as there is no ready market for the trading of insurance certificates.

(f) Premium revenues

Gross premiums are recognized as revenue when due. When premiums are recognized, the related actuarial liabilities are recorded, resulting in the matching of benefits and expenses with such revenue.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

1. Significant accounting policies (continued)

(g) Transaction costs

Transaction costs on the purchase or sale of an investment are expensed as incurred for all investments classified as both held-for-trading and available-for-sale.

(h) Fraternal investment

Fraternal investment represents the contribution made by Foresters in the three countries where Foresters operates. These contributions include donations to charities for family's causes, sponsorship for various fundraising programs, support for the volunteer branch system, scholarships and other benevolent activities.

(i) Income taxes

Income taxes are accounted for by the asset and liability method, whereby future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statements' carrying amount of existing assets and liabilities and their respective tax bases, operating losses and tax loss carryforwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled.

Future tax assets and liabilities are included in other assets or other liabilities, as applicable, in the consolidated balance sheets.

(j) Foreign currency translation

Foresters operations in the U.S. and the U.K. are considered to be self-sustaining and are translated using the current rate method. Under this method, all assets and liabilities are translated at year-end exchange rates and revenues and expenses are translated at average rates of exchange for the year. Translation gains (losses) are included in AOCI.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

1. Significant accounting policies (continued)

(k) Employee benefit plans

Obligations under employee benefit plans (including pension plans and post-retirement plans other than pensions) and the related costs, net of plan assets, are accrued as the employees render the service necessary to earn the pension and other employee future benefits. Foresters has adopted the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary and other escalation, and retirement ages of employees.
- For the purposes of calculating the expected return on plan assets, those assets are valued at fair value.
- Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- Actuarial gains (losses) arise from the difference between the actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains (losses) over 10.0% of the greater of the benefit obligation and the fair value of pension plan assets, determined at the beginning of each year, is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plans (on a weighted average basis) was 11.8 years (2009 – 11.7 years). The average remaining service period of the active employees covered by the other retirement benefit plans (on a weighted average basis) was 28.3 years (2009 – 29.6 years).
- Foresters adopted CICA 3461 on a prospective basis as of January 1, 2000. The net transitional asset is being amortized over the remaining service period, determined as of January 1, 2000. The remaining amortization period (on a weighted average basis) as of December 31, 2010 was approximately 9.6 years (2009 - 10.6 years) for the pension plans and 4.2 years (2009 - 5.2 years) for the other retirement benefit plans.

Employee benefit plan liabilities or assets are included in other assets or other liabilities, as applicable, in the consolidated balance sheets.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

2. Future accounting changes

In accordance with the requirements of the Canadian Accounting Standards Board, all publicly accountable entities will adopt International Financial Reporting Standards ("IFRS") as of January 1, 2011 with comparative statements for the prior year. Foresters will begin reporting under IFRS for the quarter ending March 31, 2011.

Foresters applied the principles under IFRS on a retrospective basis except for those which a specific exemption was granted to first-time adopters under IFRS 1 - First-time Adoption of IFRS. Foresters continues to work on quantifying the impact of IFRS and monitoring developments that might impact its financial statements. Foresters first-time adoption exemptions and accounting policy choices applied on transition to IFRS are outlined below.

Investment contracts

The majority of Foresters certificateholder and reinsurance contracts will be classified as insurance contracts under IFRS. These contracts carry significant insurance risks and will continue to be measured under CALM. Contracts where significant insurance risk does not exist will be classified as investment contracts under IFRS and accounted for either at fair value or at amortized cost.

Foresters segregated funds, unit-linked funds, settlement options and certain annuity products have been classified as investment contracts. Under IFRS, unit-linked assets and liabilities, which were previously consolidated on a line by line basis, will be combined and shown as a single line item under assets and liabilities on the statements of financial position. Under IFRS, segregated fund assets and liabilities, which were previously shown on separate statements, will also be brought into the statements of financial position as a one line item.

Additionally, only incremental deferred acquisition costs related to non-participating investment contracts will be capitalized under IFRS whereas under Canadian GAAP certain non-incremental costs were capitalized.

Business combinations

Foresters has elected not to restate business combinations completed prior to January 1, 2010. This will have no impact on surplus at the date of transition.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

2. Future accounting changes (continued)

Foreign currency

Foresters has elected the one-time option to reset the cumulative translation account (CTA) to nil. This results in a reduction to retained earnings offset by an increase in AOCI by the same amount, with no net impact on surplus.

Employee benefits

Under GAAP, Foresters amortized the net accumulated actuarial gains over the remaining service period of active employees. Under IFRS, Foresters has elected to use the direct equity method to record net actuarial gains on its employee benefit plans. As a result, Foresters will recognize all cumulative net actuarial gains and the transitional asset on its pension and post-retirement plans in retained earnings on the transition date.

Under GAAP, the net funded status (surplus or deficit) of employee benefit plans was included in other liabilities. Under IFRS, employee benefit assets and obligations are reported separately on a gross basis on the consolidated statements of financial position.

Property and equipment

Under IFRS, Foresters has elected to classify its head office buildings as own-use real estate. The buildings will be treated as property and equipment and will be carried at fair value less accumulated depreciation. Foresters set the deemed cost of its head office buildings at fair value on the date of transition. Fair value is supported by external appraisals carried out annually by qualified appraisers.

Additionally, the deferred net gains realized on the disposal of real estate will be eliminated on the statements of financial position under IFRS.

Reinsurance

GAAP allows reinsurance to be presented on a net basis in the consolidated financial statements. Under IFRS, reinsurance assets, liabilities, revenues and expenses are presented on a gross basis (net of impairments).

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

3. Acquisitions

- (a) On March 31, 2009, Unity purchased certain net assets of GeniSys Management Systems for cash consideration of \$2,065. This transaction added \$2,694 to total assets and \$629 to total liabilities.
- (b) On October 30, 2009, Unity acquired the Canadian insurance business of Metropolitan Life. This transaction resulted in an increase in total assets and total liabilities of \$298,960. Transaction costs of \$732 relating to this acquisition were expensed. The application of Unity's valuation assumptions reduced actuarial liabilities by \$7,100.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

4. Invested assets

(a) Fair value and carrying value

The fair value and carrying value of invested assets are as follows:

	2010				2009			
	Held-for-trading	Available-for-sale	Other	Total	Held-for-trading	Available-for-sale	Other	Total
Carrying value *								
Cash and short-term securities	\$ 271,399	\$ -	\$ -	\$ 271,399	\$ 109,918	\$ -	\$ -	\$ 109,918
Bonds and other fixed-term securities	3,943,422	685,806	-	4,629,228	3,889,953	741,069	-	4,631,022
Mortgages	-	-	7,915	7,915	-	-	15,317	15,317
Stocks	698,615	254,692	-	953,307	648,442	313,800	-	962,242
Real estate	-	-	26,184	26,184	-	-	21,069	21,069
Loans to certificateholders	-	-	185,794	185,794	-	-	194,496	194,496
Other invested assets	87,353	50,830	4	138,187	82,023	49,472	5	131,500
	<u>\$ 5,000,789</u>	<u>\$ 991,328</u>	<u>\$ 219,897</u>	<u>\$ 6,212,014</u>	<u>\$ 4,730,336</u>	<u>\$ 1,104,341</u>	<u>\$ 230,887</u>	<u>\$ 6,065,564</u>
Fair value								
Cash and short-term securities	\$ 271,399	\$ -	\$ -	\$ 271,399	\$ 109,918	\$ -	\$ -	\$ 109,918
Bonds and other fixed-term securities	3,943,422	685,806	-	4,629,228	3,889,953	741,069	-	4,631,022
Mortgages	-	-	8,311	8,311	-	-	16,083	16,083
Stocks	698,615	254,692	-	953,307	648,442	313,800	-	962,242
Real estate	-	-	27,046	27,046	-	-	19,500	19,500
Loans to certificateholders	-	-	185,794	185,794	-	-	194,496	194,496
Other invested assets	87,353	50,830	4	138,187	82,023	49,472	5	131,500
	<u>\$ 5,000,789</u>	<u>\$ 991,328</u>	<u>\$ 221,155</u>	<u>\$ 6,213,272</u>	<u>\$ 4,730,336</u>	<u>\$ 1,104,341</u>	<u>\$ 230,084</u>	<u>\$ 6,064,761</u>

* Recognized on the balance sheet

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

4(a) Invested assets – Fair value and carrying value (continued)

Foresters follows a fair value hierarchy to categorize the inputs used to measure the fair value of financial assets and liabilities. Fair values based on quoted prices in active markets are considered Level 1. Inputs other than quoted prices that are observable for the asset, either directly or indirectly, are considered Level 2. Inputs for assets that are not based on observable market data are considered Level 3.

The following table presents assets and liabilities that are carried at fair value, categorized by level under the fair value hierarchy.

	2010			2009		
	Held-for-trading	Available-for-sale	Total	Held-for-trading	Available-for-sale	Total
Fair value						
Level 1 - Valued using quoted market prices	\$ 1,017,711	\$ 107,759	\$ 1,125,470	\$ 633,512	\$ 143,454	\$ 776,966
Level 2 - Valued using models (with observable inputs)*	3,939,763	884,284	4,824,047	4,045,878	970,310	5,016,188
Level 3 - Valued using models (without observable inputs)	2,319	38,268	40,587	1,990	37,515	39,505
	<u>\$ 4,959,793</u>	<u>\$ 1,030,311</u>	<u>\$ 5,990,104</u>	<u>\$ 4,681,380</u>	<u>\$ 1,151,279</u>	<u>\$ 5,832,659</u>

* Level 2 includes \$3,765,690 (2009 - \$3,822,590) of held-for-trading bonds and \$715,416 (2009 - \$784,871) of available-for-sale bonds that generally trade in public markets.

	2010			2009		
	Held-for-trading	Available-for-sale	Total	Held-for-trading	Available-for-sale	Total
Level 3 invested assets (at fair value)						
Beginning balance	\$ 1,990	\$ 37,515	\$ 39,505	\$ 1,166	\$ 48,796	\$ 49,962
Changes during the year:						
Purchases	-	995	995	-	1,156	1,156
Sales	-	(1,403)	(1,403)	-	(1,052)	(1,052)
Gains / (losses)	329	1,161	1,490	824	(11,385)	(10,561)
	<u>\$ 2,319</u>	<u>\$ 38,268</u>	<u>\$ 40,587</u>	<u>\$ 1,990</u>	<u>\$ 37,515</u>	<u>\$ 39,505</u>

There were no material transfers between Level 1, 2 and 3 during 2010.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

4. Invested assets (continued)

(b) Cash and short-term securities

Short-term securities comprise notes and commercial paper with a maximum maturity date of February 10, 2011 and effective interest rates of 0.08% to 1.11% (2009 – 0.03% to 0.95%). Cash and short-term securities are comprised of:

	2010	2009
	\$	\$
Cash	253,950	43,500
Short-term securities with an original maturity of 90 days or less	17,449	55,926
	271,399	99,426
Short-term securities with an original maturity of greater than 90 days	-	10,492
	271,399	109,918

(c) Bonds and other fixed-term securities

	Average effective yield	
	2010	2009
	%	%
Corporate	5.02	5.65
Government	4.72	5.12

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

4(c) Invested assets – Bonds and other fixed-term securities (continued)

The term to maturity of bonds and other fixed term securities was as follows:

	Carrying value	
	2010 \$	2009 \$
Term to maturity		
Corporate:		
Due in one year or less	46,829	90,512
One through five years	517,955	598,217
After five years	1,751,272	1,555,537
	<u>2,316,056</u>	<u>2,244,266</u>
Government:		
Due in one year or less	33,147	46,079
One through five years	128,094	212,849
After five years	2,151,931	2,127,828
	<u>2,313,172</u>	<u>2,386,756</u>
	<u>4,629,228</u>	<u>4,631,022</u>

The carrying value is shown by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

(d) Mortgages

	2010			2009		
	Carrying value	Average effective rate	Average maturity (years)	Carrying value	Average effective rate	Average maturity (years)
Commercial	\$ 7,915	7.1%	3.3	\$ 15,317	7.1%	2.4

(e) Loans to certificateholders

Loans to certificateholders have effective interest rates principally ranging from 5.0% to 8.0% (2009- 5.0% to 8.0%), with an average effective rate of 5.3% (2009 – 5.2%).

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

4. Invested assets (continued)

(f) Net investment income was derived from the following sources:

	2010				2009			
	Held-for-trading	Available-for-sale	Other	Total	Held-for-trading	Available-for-sale	Other	Total
Investment income								
Interest income from:								
Cash and short-term securities	\$ 435	\$ -	\$ -	\$ 435	\$ 327	\$ -	\$ -	\$ 327
Bonds and other fixed-term securities	190,928	29,518	-	220,446	196,662	31,400	-	228,062
Mortgages	-	-	719	719	-	-	1,331	1,331
Loans to certificateholders	-	-	9,823	9,823	-	-	11,686	11,686
Other invested assets including inter-segment notes *	1,697	69	-	1,766	1,349	(280)	-	1,069
	193,060	29,587	10,542	233,189	198,338	31,120	13,017	242,475
Dividend income from stocks	22,247	7,339	-	29,586	24,225	10,600	-	34,825
Net rental income from real estate	-	-	9	9	-	-	225	225
	215,307	36,926	10,551	262,784	222,563	41,720	13,242	277,525
Net recognized gains (losses)								
Bonds and other fixed-term securities	203,552	23,083	-	226,635	(35,037)	3,248	-	(31,789)
Mortgages	-	-	-	-	-	-	-	-
Stocks	70,902	12,681	-	83,583	139,027	(112,347)	-	26,680
Real estate	-	-	2,436	2,436	-	-	(1,073)	(1,073)
Other invested assets	21,300	482	-	21,782	51,192	(9,474)	-	41,718
	295,754	36,246	2,436	334,436	155,182	(118,573)	(1,073)	35,536
	511,061	73,172	12,987	597,220	377,745	(76,853)	12,169	313,061
Less: investment expense	(4,977)	(1,614)	-	(6,591)	(4,141)	(2,921)	-	(7,062)
Net investment income (loss)	\$ 506,084	\$ 71,558	\$ 12,987	\$ 590,629	\$ 373,604	\$ (79,774)	\$ 12,169	\$ 305,999

* Intersegment transactions consist primarily of internal financing agreements. They are measured at fair market values prevailing when the arrangements were negotiated. These notes are recorded in other invested assets on the consolidated balance sheets. The intersegment notes and related interest eliminate on consolidation.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

4(f) Invested assets – Net investment income (continued)

Cash received on account of investment income, excluding the impact of principal transactions, in 2010 was \$360,458 (2009 - \$173,895).

5. Risk management for financial instruments

The primary goals of risk management are to ensure that the outcomes of activities involving elements of risk are consistent with Foresters objectives and risk tolerance, and to maintain an appropriate risk/reward balance while protecting Foresters balance sheets from events that have the potential to materially impair its financial strength.

Foresters has policies relating to the identification, measurement, monitoring, mitigation, and control of risks associated with financial instruments. The key risks related to financial instruments including derivatives are credit risk, market price and interest rate risk (currency, interest rate and equity), insurance risk and liquidity risk. The following sections describe how Foresters manages each of these risks.

(a) Credit risk

Credit risk is the risk of financial loss resulting from the failure of a debtor making payments when due. A Board approved Investment Policy sets out the policies and procedures to manage this risk. Specifically, guidelines have been established to minimize undue concentration of assets in any single geographic area, industry and company; limit the purchase of fixed income securities to investment-grade assets; and specify minimum and maximum limits for fixed income securities by credit quality ratings. Exposures to credit risk on the collateral pool supporting the securities lending program are discussed in note 5(f).

Portfolios are monitored continuously and reviewed regularly with the Audit, Risk and Investment Committee of the Board.

Credit risk also arises from reinsurance activities. All reinsurance counterparties are required to meet minimum risk rating criteria. Reinsurance is placed with counterparties that have an AM Best financial strength rating of A- (excellent) or better and concentration of credit risk is managed by following policy guidelines approved each year by the Board of Directors. Management regularly monitors the creditworthiness of reinsurers.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

5(a) Risk management for financial instruments – Credit risk (continued)

(i) Maximum exposure to credit risk

Foresters maximum exposure to credit risk related to financial instruments and other assets is the carrying value of those assets, net of any allowances for losses. At December 31, 2010, this amounted to \$6,043,645 (2009 - \$6,051,373).

(ii) Concentration of credit risk

Concentration of credit risk arises from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries.

Foresters establishes enterprise-wide investment portfolio level targets and limits to ensure that portfolios are widely diversified across asset classes and individual investment risks.

Foresters limits its exposure to a single issuer, including total exposure to a parent company, its subsidiaries and any other entity for which the parent acts as a guarantor. Total exposure includes the sum of Foresters investment in bonds, stocks, money market instruments and mortgages. Limits are based on the senior consolidated debt ratings of the parent company and range from 5% of total assets for AAA rated companies to 1% of total assets for BBB rated companies. Segment specific guidelines further restrict Foresters investments in a single issuer.

Foresters has no significant exposure to any single investee or its related group of companies.

Bonds and other fixed-term securities

Investment concentration in any one investee or its related group of companies, except for securities issued by or guaranteed by the U.S., Canadian and U.K. governments and government agencies, was limited to 3.5% of the bond portfolio for the U.S., 4.0% of the bond portfolio for Canada and 8.0% of the bond portfolio for the U.K. These limits apply to AAA rated bonds, and are further constrained for lower rated bonds in all three countries of operation.

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Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

5(a) Risk management for financial instruments – Credit risk (continued)

(ii) Concentration of credit risk (continued)

Foresters has no significant exposure to a single corporate bond. The following table provides details of the carrying value of bonds by industry sector and geographic distribution:

	2010			2009		
	Held-for-trading	Available-for-sale	Total	Held-for-trading	Available-for-sale	Total
Bonds issued or guaranteed by:						
U.S. treasury and other U.S. agencies	\$ 784,044	\$ 166,555	\$ 950,599	\$ 947,771	\$ 235,014	\$ 1,182,785
Canadian federal government	131,687	23,911	155,598	136,237	60	136,297
Canadian provincial and municipal government	561,434	72,013	633,447	465,172	81,660	546,832
Other foreign governments	539,037	34,491	573,528	472,008	48,834	520,842
Total government bonds	<u>2,016,202</u>	<u>296,970</u>	<u>2,313,172</u>	<u>2,021,188</u>	<u>365,568</u>	<u>2,386,756</u>
Corporate bonds by industry sector:						
Asset-backed securities	57,829	3,994	61,823	75,078	27,166	102,244
Communications	48,219	6,824	55,043	20,174	21,982	42,156
Consumer staples and discretionary	191,305	107,390	298,695	174,314	51,632	225,946
Financials	1,108,012	155,795	1,263,807	1,161,501	138,557	1,300,058
Healthcare	37,440	16,726	54,166	32,949	22,863	55,812
Industrials	221,494	49,493	270,987	212,940	85,065	298,005
Utilities and energy	229,619	31,378	260,997	178,970	28,236	207,206
Other	33,302	17,236	50,538	12,839	-	12,839
Total corporate bonds	<u>1,927,220</u>	<u>388,836</u>	<u>2,316,056</u>	<u>1,868,765</u>	<u>375,501</u>	<u>2,244,266</u>
	<u>\$ 3,943,422</u>	<u>\$ 685,806</u>	<u>\$ 4,629,228</u>	<u>\$ 3,889,953</u>	<u>\$ 741,069</u>	<u>\$ 4,631,022</u>
Allocation by geographic region:						
United States	\$ 2,017,085	\$ 600,197	\$ 2,617,282	\$ 2,082,305	\$ 662,464	\$ 2,744,769
Canada	1,392,951	56,265	1,449,216	1,272,108	75,827	1,347,935
United Kingdom	533,386	29,344	562,730	535,540	2,778	538,318
	<u>\$ 3,943,422</u>	<u>\$ 685,806</u>	<u>\$ 4,629,228</u>	<u>\$ 3,889,953</u>	<u>\$ 741,069</u>	<u>\$ 4,631,022</u>

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

5(a) Risk management for financial instruments - Credit risk (continued)

(ii) Concentration of credit risk (continued)

Bonds and other fixed-term securities

The credit rating of the bond portfolio was as follows:

Bond quality	2010		2009	
	\$	%	\$	%
Investment grade:				
AAA	2,140,511		2,220,363	
AA	941,321		1,190,352	
A	1,288,717		984,448	
BBB	232,948		199,422	
	4,603,497	99.4%	4,594,585	99.2%
BB and lower	25,731	0.6%	36,437	0.8%
Total bonds	4,629,228	100.0%	4,631,022	100.0%

Mortgages

Mortgages are secured by first recourse on the underlying property and carry a fixed interest rate.

Foresters limits its concentration in mortgages, including mortgage backed securities, collateralized mortgage obligations and collateralized mortgage backed securities to 21.0% of Foresters total assets.

Stocks

Investments in common and preferred stocks are limited to 22% and 3% respectively of Foresters total assets. 100.0% of Foresters stock portfolio is invested in publicly listed corporations.

Real estate

Investments in real estate are limited to 15.0% of total Foresters assets.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

5(a) Risk management for financial instruments - Credit risk (continued)

(iii) Impairments

An allowance for losses on loans is established when a loan becomes impaired as a result of deterioration in credit quality, to the extent there is no longer assurance of timely realization of the carrying value of the loan and related investment income. The carrying value of an impaired loan is reduced to its estimated net realizable value at the time of recognition of impairment. No allowances for losses have been taken in 2010 or in 2009.

Actuarial liabilities include an asset depreciation provision for credit losses for future asset defaults (see note 7(b)).

Unrealized gains (losses) on available-for-sale assets are recorded in other comprehensive income ("OCI"). For other than temporary impairments on such assets, Foresters reclassifies the unrealized loss on a cumulative basis from OCI and/or AOCI to net income. Foresters has recognized other than temporary impairments on available-for-sale bonds of \$Nil (2009 – \$3,783) and available-for-sale stocks of \$1,089 (2009 – \$6,854) by reclassifying the impaired portion of unrealized losses from OCI to net income.

At December 31, 2010, Foresters held bonds on which interest payments were in default. These bonds had a carrying value of \$5,516 (2009 - \$4,839) on the consolidated balance sheets and amortized cost of \$24,613 (2009 - \$25,765).

During 2010 Foresters reversed impairment losses on disposal of available-for-sale bonds amounting to \$3,413 (2009 – \$Nil).

(b) Derivative financial instruments and related risks

Foresters utilizes derivative financial instruments, including options and foreign exchange forward contracts, when appropriate, to hedge against fluctuations in foreign exchange rates and changes in stock market indices. Foresters does not enter into these financial instruments for trading or speculative purposes. Foresters only enters into derivative financial contracts with approval from the Board of Directors at which time authorization limits are set for specific personnel and policies are established to limit the size and type of such derivative transactions and counterparty exposure in respect of both the notional amount outstanding and the fair value. Adherence to these policies is monitored regularly and reported to the Audit, Risk and Investment committee annually.

Foresters exposure to loss on derivatives is limited to the amount of any net gains that may have accrued with a particular counterparty. All of Foresters derivative exposure was held with counterparties rated "AA" or higher as at December 31, 2010 and 2009. The largest single counterparty exposure was \$42,829 (2009 – \$40,834).

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Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

5(b) Risk management for financial instruments - Derivative financial instruments and related risks (continued)

Foresters is exposed to credit risk resulting from potential default of counterparties to the foreign exchange forward contracts. Foresters has received collateral with an estimated market value of \$75,684 (2009- \$Nil). Foresters has the right to sell, pledge, invest, or use any posted collateral. During the year, Foresters did not sell or pledge any collateral.

Credit quality of the collateral received is monitored regularly. The collateral includes Canadian Federal and Provincial Government fixed income securities, some of which have credit ratings of AAA, all of which have investment grade ratings.

The following table summarizes derivative financial instruments outstanding at December 31.

	Notional amount by remaining term to maturity				Fair value			Credit equivalent amount	Risk weighted amount
	Under 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative	Net		
2010									
Foreign exchange forward contracts	\$ 33,207	\$ 114,266	\$ 294,745	\$ 442,218	\$ 83,715	\$ 108	\$ 83,607	\$ 111,866	\$ 6,992
Options purchased	-	-	-	-	5,036	-	5,036	-	-
Options written	-	-	-	-	-	3,303	(3,303)	-	-
	\$ 33,207	\$ 114,266	\$ 294,745	\$ 442,218	\$ 88,751	\$ 3,411	\$ 85,340	\$ 111,866	\$ 6,992
2009									
Foreign exchange forward contracts	\$ 33,905	\$ 121,942	\$ 312,476	\$ 468,323	\$ 79,036	\$ 1,469	\$ 77,567	\$ 108,909	\$ 6,807
Options purchased	-	-	-	-	3,864	-	3,864	-	-
Options written	-	-	-	-	-	2,343	(2,343)	-	-
	\$ 33,905	\$ 121,942	\$ 312,476	\$ 468,323	\$ 82,900	\$ 3,812	\$ 79,088	\$ 108,909	\$ 6,807

Notional amount represents the face amount of derivative financial instruments to which a rate or price is applied to determine the amount of cash flows to be exchanged. It represents the volume of outstanding derivative financial instruments and does not represent the potential gain or loss associated with market risk or credit risk of such instruments.

Fair value of a derivative financial instrument is equivalent to the replacement cost based on quoted market prices. Positive fair value, representing an unrealized gain to Foresters, is the maximum credit risk measured as of the balance sheets date if the counterparties were to default on their obligations to Foresters.

Credit equivalent amount is the sum of replacement cost and the potential future credit exposure. The potential future credit exposure represents the potential for future losses that may result from future changes in fair value and is calculated based on a formula prescribed by OSFI.

Risk weighted amount represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

5. Risk management for financial instruments (continued)

(c) Market price and interest rate risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors which include three types of risks: currency risk, interest rate risk and equity risk.

(i) Currency risk

Currency risk for financial instruments arises from a mismatch between the currency of the certificate liabilities and the currency of the assets designated to support those liabilities. Foresters matches the currency of its assets with the currency of the liabilities they support to mitigate economic exposure to changes in exchange rates.

Foresters incurs the majority of its U.S. branch administrative expenses in Canadian dollars and therefore it has entered into foreign exchange forward contracts to limit the exposure to foreign exchange rate fluctuations between the Canadian and U.S. dollars (see note 5(b)). The calculation of certificate liabilities includes a provision for future certificate maintenance expenses, which are incurred in Canadian dollars on behalf of U.S. branch business based on exchange rates implicit in these contracts. These foreign exchange forward contracts effectively offset the impact of foreign exchange rate fluctuations on U.S. branch expenses and are reflected in the determination of U.S. branch certificate liabilities. A 10.0% increase in the U.S. dollar against the Canadian dollar would be expected to reduce U.S. branch certificate liabilities by \$1,459 (2009 - \$1,482). A 10.0% decrease in the U.S. dollar against the Canadian dollar would be expected to increase U.S. branch certificate liabilities by \$1,585 (2009 - \$1,623).

A substantial portion of Foresters business is denominated in currencies other than Canadian dollars. If the Canadian dollar strengthened relative to non-Canadian currencies, the translated value of reported earnings and surplus from the non-Canadian denominated businesses would decline. Foresters uses financial measures such as constant currency calculations to monitor the effect of such currency fluctuations. The following table shows the impact on net income and surplus of a 1.0% strengthening in the Canadian dollar relative to the U.S. dollar and the U.K. pound.

	Decrease in total comprehensive income (loss)		Decrease in surplus	
	2010	2009	2010	2009
Impact of 1.0% strengthening in the Canadian dollar				
U.S. dollar	(1,034)	(2,173)	(11,373)	(10,867)
U.K. pound	(123)	(87)	(890)	(807)

A 1.0% weakening in rates would have an equal and opposite impact to that displayed above.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

5(c) Risk management for financial instruments - Market price and interest rate risk (continued)

(ii) Interest rate risk

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change, causing a difference in value between assets and liabilities. Foresters mitigates its exposure to interest rate risk by utilizing a formal process for managing the matching of assets and liabilities which involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in that segment. For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the product liability cash flows. Protection against interest rate change is achieved as any change in the fair market value of the assets will be offset by a similar change in the fair market value of the liabilities. For products with less predictable timing of benefit payments, investments are made in equities or fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments as described below.

The risk associated with the mismatch in portfolio duration, cash flow and asset prepayment exposure are quantified and reviewed regularly.

Projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method (CALM) to determine actuarial liabilities. Cash flows from assets are reduced to provide for potential asset depreciation losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to assess reinvestment risk.

One method of measuring the interest rate risk is to determine the effect on the present value of the projected net asset and liability cash flows of the business of Foresters of an immediate 1.0% increase or decrease in the level of interest rates. These interest rate changes will impact the projected cash flows. For most of the interest sensitive products, annuities and universal life certificates, a decrease in interest rates results in decreased profitability. A sustained 1.0% decline in the general level of interest rates would result in an increase in actuarial liabilities on these products of approximately \$27,600 (2009 - \$20,300) while the effect of a sustained 1.0% increase in the general level of interest rates would result in a decrease in actuarial liabilities on these products of approximately \$30,600 (2009 - \$5,300).

Many of the annuity and universal life insurance certificates have minimum credited interest rate guarantees, ranging from 1.0% to 4.0% (2009 – 1.5% to 4.0%). These products are sensitive to a sustained decline in interest rates. The dividend paying traditional life insurance products are also sensitive to a sustained decline in interest rates. However, this impact would only be realized after several years because dividends would be reduced as the yield on the asset portfolio declines.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

5(c) Risk management for financial instruments – Market price and interest rate risk

(ii) Interest rate risk (continued)

It is more difficult to fully reflect the impact of a sharp setback in the market on dividends credited on certificates and particularly on interest rates credited on interest sensitive products. Under Foresters Investment Policy, the impact on surplus of a sustained 1.0% reduction in interest rates, combined with a sustained 10.0% reduction in stock markets is benchmarked against a 10.0% reduction in MCCSR. At December 31, 2010, this benchmark was \$29,700 (2009 - \$31,300), being the surplus reduction which would result in a 10.0% reduction in MCCSR.

A 1.0% reduction in interest rates, combined with a sustained 10.0% reduction in stock markets, results in a \$88,700 increase (2009 - \$72,700 increase) in actuarial liabilities and a corresponding decrease in net income.

Bonds designated as available-for-sale generally do not support actuarial liabilities. Changes in fair value of available-for-sale bonds are recorded in OCI. For Foresters available-for-sale bonds, an immediate 1.0% parallel increase in interest rates at December 31, 2010, across the entire yield curve, would result in an estimated after-tax decrease in OCI of \$41,700 (2009 - \$43,000). Conversely, an immediate 1.0% parallel decrease in interest rates would have an equal and opposite effect.

(iii) Equity risk

Some certificate liabilities such as products with long duration are supported by equities. There will be additional impacts on these liabilities as equity market values fluctuate. A 10.0% increase in equity markets would be expected to decrease actuarial liabilities by approximately \$7,500 (2009 - \$5,700). A 10.0% decrease in equity markets would be expected to increase actuarial liabilities by approximately \$10,400 (2009 - \$10,800).

Equities designated as available-for-sale generally do not support actuarial liabilities. Changes in fair value of available-for-sale equities are recorded in OCI. For Foresters available-for-sale equities, an immediate 10.0% increase in stock prices at December 31, 2010, would result in an estimated after-tax increase in OCI of \$25,700 (2009 - \$31,400). Conversely, an immediate 10.0% decrease in stock prices would have an equal and opposite effect.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

5. Risk management for financial instruments (continued)

(d) Insurance risk

Insurance risk is the risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, certificateholder behaviour and expenses. A variety of assumptions are made related to the future level of claims, certificateholder behaviour, expenses and sales levels when products are designed and priced as well as in the determination of actuarial liabilities. The development of assumptions for future claims and certificateholder behaviour are based on company and industry experience. Such assumptions require a significant amount of professional judgment and therefore, actual experience may be materially different than the assumptions made by Foresters.

(e) Liquidity risk

Liquidity risk is the risk that Foresters will not be able to meet all cash outflow obligations as they come due. Foresters liquidity requirements are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields to ensure consistency between certificateholder requirements and the yield of assets.

Operating and strategic liquidity levels are managed against established minimums. Foresters ensures adequate liquidity on a day-to-day operational basis by maintaining a specified minimum level of highly liquid assets (defined as all short-term investments issued by major banks and the governments of the U.S., Canada and the U.K.). Operating liquidity remains well above minimum requirements.

Strategic liquidity is measured under both immediate (within one month) and ongoing (within one year) stress scenarios. Foresters target liquidity ratio under both scenarios is 200.0%, a ratio that would more than support the highest claims-paying ratings for Foresters, in addition to providing a wide margin of safety. Foresters liquidity ratio is defined as Allowable Liquid Assets / Risk-Adjusted Liquidity of Liabilities. The Risk-Adjusted Liquidity of Liabilities is calculated by assessing the probability of a certificateholder surrendering a certificate for cash under each of the two scenarios, adjusted for the ability of the certificateholder to surrender under its contractual provisions.

The following chart shows Foresters strategic liquidity ratio:

	2010		2009	
	Immediate scenario	Ongoing scenario	Immediate scenario	Ongoing scenario
Allowable Liquid Assets	\$ 5,411,118	\$ 5,602,980	\$ 5,246,726	\$ 5,443,491
Risk-Adjusted Liquidity of Liabilities	1,776,703	2,161,970	1,763,845	2,156,270
Liquidity ratio	304.6%	259.2%	297.5%	252.5%

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Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

5. Risk management for financial instruments (continued)

(f) Securities lending

Foresters lends its own securities for periods of time to other institutions on a fully collateralized basis in order to generate additional income. The value of the collateral received is at least 102.0% (105.0% in Canada) of the market value of the security loaned and the collateral is marked to market daily while Foresters security is on loan. The securities lending program is managed by regulated financial institutions in the U.S. and Canada.

The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market values fluctuate. As at December 31, 2010, securities with an estimated market value of \$281,038 (2009 - \$403,231) were on loan. Foresters has received collateral with an estimated market value of \$287,617 (2009 - \$412,121).

Foresters is exposed to credit risk resulting from potential asset defaults on the collateral pool supporting the securities lending program. Collateral is invested according to approved investment guidelines and the credit quality of the pool is monitored regularly. The credit ratings associated with these assets are as follows:

Fixed-term securities	2010		2009	
	\$	%	\$	%
Investment grade:				
AAA	114,903		175,424	
AA	128,988		186,670	
A	34,197		32,912	
BBB	62		6,533	
	278,150	96.7%	401,539	97.4%
BB and lower	9,467	3.3%	10,582	2.6%
	287,617	100.0%	412,121	100.0%

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

6. Capital management

Foresters capital base consists of retained earnings and AOCI as stated on the consolidated statements of surplus.

Foresters objective with respect to capital management is to maintain a consistently strong capital position, to comply with local solvency requirements in all jurisdictions in which Foresters operates and to build on Foresters value by taking advantage of business and investment opportunities as they arise.

In accordance with the Board approved Capital Management Policy, Foresters has established internal capital targets for capital adequacy at both a total company and a divisional level. These targets exceed local minimum capital requirements in each jurisdiction in which Foresters operates. Foresters projects its capital requirements over a five year period. On a quarterly basis, management monitors performance against internal capital targets and its capital plans, and initiates action when appropriate.

Annually, as part of Dynamic Capital Adequacy Testing ("DCAT"), Foresters assesses the strength of its capital position under plausible adverse scenarios including mitigating management actions. These scenarios reflect Foresters business plans and risk profile.

In Canada, OSFI has established a capital adequacy measure for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the MCCR ratio. OSFI generally expects life insurance companies to maintain a minimum MCCR ratio of 150% or greater, based on the risk profile of the company.

The MCCR ratios as at December 31, 2010 and December 31, 2009, shown below, were above the levels that would require any regulatory or corrective action.

		<u>2010</u>	<u>2009</u>
Capital available	A	\$ 1,410,640	\$ 1,354,966
Capital required:			
Asset default and market risk		108,111	128,175
Insurance risks		123,825	112,421
Interest rate risks		65,707	72,717
Total capital required	B	<u>\$ 297,643</u>	<u>\$ 313,313</u>
MCCR ratio (A / B)		474%	432%

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

7. Actuarial liabilities

(a) Nature of actuarial liabilities

Actuarial liabilities are an estimate of the amount which, together with estimated future premiums and investment income, will be sufficient to pay future benefits, dividends, expenses and taxes (other than income taxes) on certificates in force.

Actuarial liabilities are determined using accepted actuarial practice, according to the standards established by the Canadian Institute of Actuaries ("CIA"). The method prescribed by the CIA is CALM.

In determining actuarial liabilities, assumptions are made about future cash flows, thus there is significant risk that actual results will vary from those estimates. The risk varies in proportion to the length of the estimation period and the potential volatility of each assumption. To recognize uncertainty in establishing those estimates and to allow for possible deviation in experience, the Appointed Actuary is required to include a margin in each assumption, which has the effect of increasing the actuarial liabilities. A range of allowable margins is prescribed by the CIA. For interest rate risk, the Appointed Actuary projects multiple cash flow scenarios for each material product line in order to determine the appropriate provision for adverse deviation. In general, in setting these provisions for adverse deviation, the Appointed Actuary has aimed for a reasonable level of conservatism. With the passage of time, and resulting reduction in estimation risk, these provisions will be included in future income to the extent they are not required to cover adverse experience. If estimates of future conditions change throughout the life of a certificate, the effect of those changes is recognized in income immediately.

(b) Actuarial liabilities and supporting assets

Foresters segments its business, taking into account the different liability profiles of its products and in the case of certain U.K. business restrictions on the distribution of its surplus. Based on these profiles, Foresters has invested in fixed income securities, equities, mortgages and real estate that have characteristics appropriate for the related actuarial liabilities. In those cases where the characteristics of the invested assets do not fully reflect the needs of the liabilities, derivative financial instruments are used when appropriate (note 5(b)). Actuarial liabilities are matched with assets denominated in the same currency in order to avoid unintended exposure to foreign currency fluctuations.

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Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

7(b) Actuarial liabilities - Actuarial liabilities and supporting assets (continued)

Assets and liabilities, by geographic segment and by line of business, are comprised as follows:

2010	United States				Canada				United Kingdom				Corporate	Total
	Insurance	Annuities	Fraternal	Total	Insurance	Annuities	Fraternal	Total	Insurance	Annuities	Fraternal	Total		
Assets														
Cash and short-term securities	\$ 1,777	\$ 295	\$ 1,048	\$ 3,120	\$ 7,833	\$ 5,154	\$ 911	\$ 13,898	\$ 1,201	\$ 7,786	\$ 511	\$ 9,498	\$ 244,883	\$ 271,399
Bonds and fixed-term securities	1,435,841	389,772	176,472	2,002,085	849,345	521,060	34,301	1,404,706	373,856	120,544	38,986	533,386	689,051	4,629,228
Mortgages	3,147	4,768	-	7,915	-	-	-	-	-	-	-	-	-	7,915
Stocks	90,591	10,786	-	101,377	75,279	62,282	4,336	141,897	414,524	40,816	-	455,340	254,693	953,307
Real estate	-	-	-	-	-	-	1	1	-	-	-	-	26,183	26,184
Loans to certificateholders	140,167	-	-	140,167	39,082	-	-	39,082	-	6,545	-	6,545	-	185,794
Other invested assets *	66,973	5,920	12,562	85,455	(20,842)	5,643	-	(15,199)	-	-	-	-	67,931	138,187
Total invested assets	1,738,496	411,541	190,082	2,340,119	950,697	594,139	39,549	1,584,385	789,581	175,691	39,497	1,004,769	1,282,741	6,212,014
Interest due and accrued	16,982	3,849	1,955	22,786	6,619	4,814	326	11,759	4,874	1,222	-	6,096	8,626	49,267
Other assets	18,921	-	4,280	23,201	6,549	(188)	2,369	8,730	-	(2,744)	671	(2,073)	47,437	77,295
Total assets	\$ 1,774,399	\$ 415,390	\$ 196,317	\$ 2,386,106	\$ 963,865	\$ 598,765	\$ 42,244	\$ 1,604,874	\$ 794,455	\$ 174,169	\$ 40,168	\$ 1,008,792	\$ 1,338,804	\$ 6,338,576
Liabilities and Surplus														
Liabilities														
Net actuarial liabilities	\$ 1,661,396	\$ 376,331	\$ 207,149	\$ 2,244,876	\$ 860,662	\$ 586,778	\$ 43,814	\$ 1,491,254	\$ 777,337	\$ 129,411	\$ 32,658	\$ 939,406	\$ -	\$ 4,675,536
Other certificateholders' liabilities	43,945	35,758	-	79,703	39,834	1,015	-	40,849	5,664	2,386	-	8,050	-	128,602
Other liabilities	7,208	152	236	7,596	36,195	76	1,205	37,476	6,169	3,199	16	9,384	37,956	92,412
Net deferred gains	11,477	1,287	1,510	14,274	117	-	1,110	1,227	-	-	-	-	139	15,640
Total liabilities	1,724,026	413,528	208,895	2,346,449	936,808	587,869	46,129	1,570,806	789,170	134,996	32,674	956,840	38,095	4,912,190
Surplus														
Retained earnings	50,373	1,862	(12,578)	39,657	27,057	10,896	(3,885)	34,068	5,285	39,173	7,494	51,952	1,436,948	1,562,625
Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	(136,239)	(136,239)
Total surplus	50,373	1,862	(12,578)	39,657	27,057	10,896	(3,885)	34,068	5,285	39,173	7,494	51,952	1,300,709	1,426,386
Total Liabilities and Surplus	\$ 1,774,399	\$ 415,390	\$ 196,317	\$ 2,386,106	\$ 963,865	\$ 598,765	\$ 42,244	\$ 1,604,874	\$ 794,455	\$ 174,169	\$ 40,168	\$ 1,008,792	\$ 1,338,804	\$ 6,338,576

* Intersegment notes are included in other invested assets. Intersegment transactions consist primarily of internal financing agreements. They are measured at fair market values prevailing when the arrangements were negotiated. Interest is recorded in net investment income on the consolidated statements of income (loss). The intersegment notes and related interest eliminate on consolidation.

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Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

7(b) Actuarial liabilities - Actuarial liabilities and supporting assets (continued)

Assets and liabilities, by geographic segment and by line of business, are comprised as follows:

2009	United States				Canada				United Kingdom				Corporate	Total
	Insurance	Annuities	Fraternal	Total	Insurance	Annuities	Fraternal	Total	Insurance	Annuities	Fraternal	Total		
Assets														
Cash and short-term securities	\$ 22,493	\$ 8,049	\$ 11,593	\$ 42,135	\$ 22,363	\$ 11,817	\$ 2,008	\$ 36,188	\$ 590	\$ 14,241	\$ 1,603	\$ 16,434	\$ 15,161	\$ 109,918
Bonds and fixed-term securities	1,550,583	412,669	209,991	2,173,243	829,442	425,756	43,748	1,298,946	329,682	111,981	42,938	484,601	674,232	4,631,022
Mortgages	6,964	8,353	-	15,317	-	-	-	-	-	-	-	-	-	15,317
Stocks	93,887	10,946	-	104,833	61,233	65,466	3,915	130,614	367,821	44,539	-	412,360	314,435	962,242
Real estate	-	-	-	-	-	-	-	-	-	-	-	-	21,069	21,069
Loans to certificateholders	148,540	-	-	148,540	38,043	-	-	38,043	-	7,022	-	7,022	891	194,496
Other invested assets *	59,277	1,523	19,765	80,565	(29,595)	7,160	-	(22,435)	-	-	-	-	73,370	131,500
Total invested assets	1,881,744	441,540	241,349	2,564,633	921,486	510,199	49,671	1,481,356	698,093	177,783	44,541	920,417	1,099,158	6,065,564
Interest due and accrued	18,508	4,024	2,239	24,771	6,291	4,191	353	10,835	4,864	1,176	-	6,040	9,815	51,461
Other assets	21,579	-	2,322	23,901	10,065	149	1,020	11,234	105	(1,074)	491	(478)	20,677	55,334
Total assets	\$ 1,921,831	\$ 445,564	\$ 245,910	\$ 2,613,305	\$ 937,842	\$ 514,539	\$ 51,044	\$ 1,503,425	\$ 703,062	\$ 177,885	\$ 45,032	\$ 925,979	\$ 1,129,650	\$ 6,172,359
Liabilities and Surplus														
Liabilities														
Net actuarial liabilities	\$ 1,752,248	\$ 388,294	\$ 202,465	\$ 2,343,007	\$ 829,846	\$ 499,937	\$ 38,289	\$ 1,368,072	\$ 707,547	\$ 129,326	\$ 37,361	\$ 874,234	\$ -	\$ 4,585,313
Other certificateholders' liabilities	29,783	43,724	-	73,507	39,343	1,237	-	40,580	6,456	1,531	-	7,987	-	122,074
Other liabilities	16,612	619	464	17,695	38,939	1,024	761	40,724	2,059	4,904	31	6,994	23,654	89,067
Net deferred gains	13,700	1,536	1,802	17,038	131	-	1,254	1,385	-	-	-	-	166	18,589
Total liabilities	1,812,343	434,173	204,731	2,451,247	908,259	502,198	40,304	1,450,761	716,062	135,761	37,392	889,215	23,820	4,815,043
Surplus														
Retained earnings	109,488	11,391	41,179	162,058	29,583	12,341	10,740	52,664	(13,000)	42,124	7,640	36,764	1,205,314	1,456,800
Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	(99,484)	(99,484)
Total surplus	109,488	11,391	41,179	162,058	29,583	12,341	10,740	52,664	(13,000)	42,124	7,640	36,764	1,105,830	1,357,316
Total Liabilities and Surplus	\$ 1,921,831	\$ 445,564	\$ 245,910	\$ 2,613,305	\$ 937,842	\$ 514,539	\$ 51,044	\$ 1,503,425	\$ 703,062	\$ 177,885	\$ 45,032	\$ 925,979	\$ 1,129,650	\$ 6,172,359

* Intersegment notes are included in other invested assets. Intersegment transactions consist primarily of internal financing agreements. They are measured at fair market values prevailing when the arrangements were negotiated. Interest is recorded in net investment income on the consolidated statements of income (loss). The intersegment notes and related interest eliminate on consolidation.

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Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

7(b) Actuarial liabilities – Actuarial liabilities and supporting assets (continued)

Asset depreciation provisions made for anticipated future losses of principal and interest on investments and included as a component of actuarial liabilities are as follows:

	2010	2009
	\$	\$
Balance, beginning of year*	76,953	78,382
Net strengthening of provision**	(26,942)	6,537
Impact of change in foreign exchange rates	(1,860)	(7,966)
Balance, end of year*	48,151	76,953

* Provisions are net of losses expected to be passed-through via credited interest rates and dividends.

** The provision decreased in 2010 to reflect a gradual return to historical default rates.

(c) Actuarial assumptions

The nature and method of determining the more significant assumptions made by Foresters in the computation of actuarial liabilities are described in the following paragraphs. In all cases, the assumptions are supplemented by the use of margins for adverse deviation.

Certificate claims and benefits

Estimates of the amounts and timing of future claims and benefit payments are based on both Foresters and industry experience over extended periods. Although the pattern of claims and benefit payments may be close to that indicated by past experience, some deviation in that pattern is probable. Annual studies are performed to examine mortality; the actual mortality experience of Foresters is compared to both our expected assumptions and industry expected values to confirm that appropriate assumptions are being made about the projected benefit patterns.

Certificate lapse rates

Certificateholders may allow their certificates to lapse by choosing to discontinue payment of their premiums. On some of the life insurance products, a certain percentage of certificates are expected to lapse prior to maturity. If certificate lapse rates are lower than expected, aggregate claims will be increased and profit will be reduced from anticipated levels. This type of certificate is described as being lapse-supported. On other blocks of business, if certificate lapse rates are higher than originally anticipated, the per unit cost of maintaining certificates in force could rise above levels assumed in the computation of actuarial liabilities. Foresters bases its estimate of future lapse rates on previous experience for each block of business.

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Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

7(c) Actuarial liabilities – Actuarial assumptions (continued)

Investment income

The computation of actuarial liabilities takes into account projected net investment income on assets supporting these liabilities and income expected to be earned or foregone on reinvestments or financing of mismatched cash flows. Uncertainties exist with respect to the projections of interest rates and the magnitude of credit losses resulting from asset depreciation. Foresters accounts for such uncertainties by incorporating provisions for credit losses into projections of investment income (in addition to the allowances for impairment applied as direct reductions to the carrying values of the invested assets).

Certificate maintenance expenses

Amounts are included in actuarial liabilities to provide for the costs of administering certificates in force and include the costs of premium collection, adjudication and processing of claims, periodic actuarial calculations, preparation and mailing of certificate statements, related indirect expenses and overhead. The process of forecasting expenses requires estimates to be made of such factors as inflation, salary rate increases, productivity changes, business volumes and indirect tax rates. Estimates of future certificate maintenance expenses are based on Foresters experience.

A 1.0% ongoing increase in the future maintenance costs assumed would increase the actuarial liabilities by approximately \$4,443 (2009 - \$4,749).

Certificateholder dividends

Future certificateholder dividends are included in the determination of actuarial liabilities for participating certificates, with the assumption that certificateholder dividends will change in the future to reflect the experience of the respective participating accounts, consistent with the Dividend Policy.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

7. Actuarial liabilities (continued)

(d) Sensitivity to interest rate changes and market risk

Major factors that could impact future interest rate assumptions are changes in the yields available on new investments and changes in future returns expected on the stock market from a change in outlook for capital appreciation (see note 5(c)).

(e) Explanation of changes in actuarial liabilities during the year

Changes in actuarial liabilities during the year result from a number of different factors including business activities and changes in actuarial assumptions and methods.

	2010 \$	2009 \$
Actuarial liabilities, beginning of year	4,585,313	4,713,473
Acquisitions	-	291,449
	<u>4,585,313</u>	<u>5,004,922</u>
New business	166,629	159,804
Renewals, maturity, claims and surrenders	(8,678)	(9,468)
Refinement of assumptions (see (i) below)	(67,283)	(186,794)
Refinement of methods and models (see (ii) below)	(2,692)	6,795
Impact of fair value movement	208,449	33,473
	<u>296,425</u>	<u>3,810</u>
Impact of change in foreign exchange rates	<u>(206,202)</u>	<u>(423,419)</u>
Actuarial liabilities, end of year	<u>4,675,536</u>	<u>4,585,313</u>

An impact analysis of the major actuarial factors in 2010 and 2009 is as follows:

- (i) Changes in actuarial liabilities from assumption refinements in 2010 included decreases due to reduced unit expense factors, improved mortality assumptions and a lower assumed inflation rate. These reductions were offset by increases due to exchange rate movements, higher lapse assumptions and lower assumptions for investment returns.

Changes in actuarial liabilities from assumption refinements in 2009 included decreases due to rising investment returns, reduced unit maintenance expense factors and improved mortality assumptions offset by increases due to exchange rate movements and higher lapse assumptions.

- (ii) There were a number of model changes in 2010 that had a small and often offsetting impact. In 2009, changes were comprised of an adjustment to mortality assumptions for Life First plans and disability riders, and modeling improvements for Fraternal benefits.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

8. Income taxes

(a) The components of the total income taxes reported in the consolidated statements of income are:

	2010	2009
	\$	\$
Canadian		
Current income taxes	10,667	13,329
Future income taxes	(1,989)	(5,597)
	<u>8,678</u>	<u>7,732</u>
United Kingdom		
Current income taxes	1,928	(1,835)
Future income taxes	3,223	(1,881)
	<u>5,151</u>	<u>(3,716)</u>
Total	<u>13,829</u>	<u>4,016</u>

(b) The components of future income tax balances reported on the balance sheets are as follows:

	2010	2009
	\$	\$
Future income tax assets		
Actuarial liabilities	53,760	52,960
Deferred net gains	(2,440)	(1,704)
Tax loss carryforwards	3,616	6,587
Other	730	898
	<u>55,666</u>	<u>58,741</u>
Valuation allowance	(44,270)	(38,459)
Future income tax liabilities arising from investments	<u>(23,571)</u>	<u>(31,972)</u>
Net future income tax liability	<u>(12,175)</u>	<u>(11,690)</u>

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Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

8. Income taxes (continued)

(c) Cash taxes paid in 2010 were \$15,778 (2009 - \$12,089).

(d) Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates to income before taxes for the following reasons:

	2010 %	2009 %
Combined federal and provincial statutory income tax rate for the current year	30.08	31.77
Increase (decrease) in rate due to:		
Lower net average tax rate of foreign jurisdictions and Canadian fraternal operations *	(22.08)	(32.93)
Other	3.56	5.23
Effective income tax rate	11.56	4.07

* As a fraternal benefit society, Foresters is exempt from paying (recovering) taxes on income (loss) earned in the U.S. and on income (loss) earned on its fraternal operations in Canada. The U.K. tax rates are generally lower than Canadian tax rates.

9. Employee benefit plans

Foresters has a number of funded and unfunded defined benefit and defined contribution pension plans, that provide pension, other retirement and post-retirement benefits to its employees in the U.S., Canada and the U.K. The defined benefit pension plans provide benefits based on a final average earnings formula. Foresters also provides post-retirement health benefits to certain employee groups in the U.S. and Canada.

Actuarial valuations of the pension and post-retirement benefit plans are performed periodically for accounting purposes, based on the market-related discount rate and management's best estimate assumptions.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

9. Employee benefit plans (continued)

Foresters measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was December 31, 2009 for the U.S. plan, December 31, 2009 for the Canadian plan and March 2008 for the U.K. plan. The effective date of the next required valuation is December 31, 2013 for the U.S. plan, December 31, 2012 for the Canada plan and March 2011 for the U.K. plan.

The following table presents information related to Foresters defined benefit plans, including amounts recorded on the consolidated balance sheets and the components of net periodic benefit cost:

	2010		2009	
	Pension benefits \$	Other benefits \$	Pension benefits \$	Other benefits \$
Reconciliation of accrued benefit obligation				
Accrued benefit obligation, beginning of year	143,747	18,664	127,750	21,487
Service cost	4,569	(414)	3,646	(1,188)
Employee contributions	4	-	55	-
Curtailments	-	-	(2,750)	-
Interest cost	9,092	755	8,973	860
Benefits paid	(8,419)	(962)	(11,868)	(890)
Actuarial losses	31,096	254	20,413	688
Impact of change in foreign exchange rates	(1,765)	(723)	(2,472)	(2,293)
Accrued benefit obligation, end of year	178,324	17,574	143,747	18,664
Reconciliation of fair value of plan assets:				
Fair value of plan assets, beginning of year	205,452	-	203,089	-
Return on plan assets	19,821	-	16,722	-
Employer contributions	725	-	701	-
Employee contributions	4	-	55	-
Benefits paid	(8,419)	-	(11,868)	-
Impact of change in foreign exchange rates	(2,065)	-	(3,247)	-
Fair value of plan assets, end of year	215,518	-	205,452	-
Funded status:				
Funded status – plan surplus (deficit)	37,194	(17,574)	61,705	(18,664)
Unamortized net actuarial gains (losses)	7,475	(5,106)	(15,034)	(6,150)
Unamortized transitional obligation	(23,772)	347	(26,066)	396
Accrued benefit asset (liability)	20,897	(22,333)	20,605	(24,418)

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

9. Employee benefit plans (continued)

The net accrued benefit liability of \$1,436 (2009 – \$3,813) has been recorded on the consolidated balance sheets in other liabilities.

Included in the above accrued benefit obligations and fair value of plan assets at year-end were the following amounts in respect of plans that were not fully funded:

	2010		2009	
	Pension benefits \$	Other benefits \$	Pension benefits \$	Other benefits \$
Accrued benefit obligation	(17,090)	(17,574)	(10,893)	(18,664)
Fair value of plan assets	-	-	-	-
Funded status – plan deficit	(17,090)	(17,574)	(10,893)	(18,664)

The total cash payments made by Foresters to the pension plans and other benefit plans were as follows:

	2010		2009	
	Pension benefits \$	Other benefits \$	Pension benefits \$	Other benefits \$
Defined benefit	725	962	701	890
Defined contribution	1,375	-	1,369	-
Total	2,100	962	2,070	890

A breakdown of the fair value of plan assets by major asset category was as follows:

	2010		2009	
	Pension benefits %	Other benefits %	Pension benefits %	Other benefits %
Stocks	41	-	39	-
Fixed income securities	58	-	59	-
Other	1	-	2	-
Total	100	-	100	-

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

9. Employee benefit plans (continued)

Foresters net defined benefit plan expense is as follows:

	2010		2009	
	Pension benefits \$	Other benefits \$	Pension benefits \$	Other benefits \$
Actual costs arising in the period				
Service cost (employer portion)	4,569	(414)	3,646	(1,188)
Interest cost	9,092	755	8,973	860
Actual return on plan assets	19,821	-	16,722	-
Actuarial losses	31,096	254	20,413	688
Pension costs incurred before adjustment	64,578	595	49,754	360
Differences between costs arising in the year and cost recognized in respect of:				
Return on plan assets	(31,360)	-	(27,944)	-
Actuarial gains	(31,221)	(703)	(22,020)	(1,278)
Curtailement gains	-	-	(2,749)	-
Amortization of net transitional obligations	(2,246)	50	(2,272)	50
Net benefit plan income	(249)	(58)	(5,231)	(868)

The defined contribution plan expense for 2010 was \$1,375 (2009- \$1,369).

The weighted average actuarial assumptions used in the measurement of Foresters benefit obligation and expenses were as follows:

	2010		2009	
	Pension benefits %	Other benefits %	Pension benefits %	Other benefits %
Assumptions used to calculate benefit expense				
Discount rate	6.4	5.9	7.3	6.5
Expected long-term rate of return on plan assets	5.5	-	5.8	-
Rate of compensation increase	3.5	-	3.7	-
Assumptions used to calculate benefit obligations				
Discount rate	5.5	5.2	6.4	5.9
Rate of compensation increase	3.5	-	3.7	-

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Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

9. Employee benefit plans (continued)

The Medicare (post 65 years of age) inflation assumption for the U.S. benefits is 8.4% for 2011 (2010 – 8.7%) decreasing to 4.5% by 2028 and thereafter. The healthcare cost inflation assumption for Canadian benefits is 7.3% for 2011 (2010 – 7.4%), decreasing to 4.5% in 2030 and thereafter.

A 1.0% change in the assumed healthcare trend rate for the U.S. and Canadian plans would have the following effects:

	1.0% increase	1.0% decrease
Effect on service cost plus interest cost for 2010	74	(63)
Effect on accrued benefit obligation as at December 31, 2010	1,226	(1,059)

10. Segmented information

Foresters manages its business and distributes its general fund insurance and annuity products and its segregated fund products through operating segments in the U.S., Canada and the U.K. In addition, Foresters has a fraternal operation which works closely with the insurance operations in all three countries to develop and administer member benefits. Total comprehensive income for insurance and fraternal operations is shown below by geographic segment.

Information on assets and liabilities by geographic segment and line of business is included in note 7(b).

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Notes to Consolidated Financial Statements (in thousands of Canadian dollars)

10. Segmented information (continued)

	2010					2009				
	United States	Canada	United Kingdom	Corporate	Total	United States	Canada	United Kingdom	Corporate	Total
Revenue										
Premiums										
Insurance	\$ 187,901	\$ 75,891	\$ 146,678	\$ -	\$ 410,470	\$ 191,946	\$ 69,397	\$ 122,061	\$ -	\$ 383,404
Annuities	17,782	113,374	28,060	-	159,216	26,328	53,322	34,163	-	113,813
Net investment income (loss)	263,167	158,692	96,401	72,369	590,629	171,654	103,208	115,150	(84,013)	305,999
Other income	2,619	2,539	-	3,877	9,035	3,836	2,662	-	3,081	9,579
	<u>471,469</u>	<u>350,496</u>	<u>271,139</u>	<u>76,246</u>	<u>1,169,350</u>	<u>393,764</u>	<u>228,589</u>	<u>271,374</u>	<u>(80,932)</u>	<u>812,795</u>
Certificateholder benefits and expenses										
Certificateholder benefits	204,965	104,316	81,839	-	391,120	221,406	84,983	80,946	-	387,335
Changes in actuarial liabilities	28,582	123,178	144,665	-	296,425	(167,011)	12,171	158,650	-	3,810
Dividends	22,401	13,046	3,235	-	38,682	25,764	13,071	4,380	-	43,215
Agent compensation	79,020	48,107	14,485	1,052	142,664	65,861	32,994	13,248	(251)	111,852
Operating expenses	95,812	34,104	13,060	19,360	162,336	96,119	35,225	12,952	5,126	149,422
Fraternal investment	13,940	3,359	1,170	-	18,469	12,685	3,341	1,461	-	17,487
	<u>444,720</u>	<u>326,110</u>	<u>258,454</u>	<u>20,412</u>	<u>1,049,696</u>	<u>254,824</u>	<u>181,785</u>	<u>271,637</u>	<u>4,875</u>	<u>713,121</u>
Net income (loss) before income taxes	26,749	24,386	12,685	55,834	119,654	138,940	46,804	(263)	(85,807)	99,674
Income taxes	-	6,451	3,684	3,694	13,829	-	2,746	(2,301)	3,571	4,016
Net income (loss)	<u>26,749</u>	<u>17,935</u>	<u>9,001</u>	<u>52,140</u>	<u>105,825</u>	<u>138,940</u>	<u>44,058</u>	<u>2,038</u>	<u>(89,378)</u>	<u>95,658</u>
Other comprehensive income (loss)	-	-	-	(36,755)	(36,755)	-	-	-	18,323	18,323
Total comprehensive income (loss)	<u>\$ 26,749</u>	<u>\$ 17,935</u>	<u>\$ 9,001</u>	<u>\$ 15,385</u>	<u>\$ 69,070</u>	<u>\$ 138,940</u>	<u>\$ 44,058</u>	<u>\$ 2,038</u>	<u>\$ (71,055)</u>	<u>\$ 113,981</u>

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements (In thousands of Canadian dollars)

11. Contingent liabilities

From time to time in connection with its operations, Foresters and its subsidiaries are named as defendants in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, such actions have generally been resolved with minimal damages or expense in excess of amounts provided in actuarial liabilities and Foresters does not believe that it will incur any significant additional loss or expense in connection with such actions.

12. Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in 2010.

13. Subsequent event

Foresters acquired 100% of the common shares of First Investors Consolidated Corporation ("FICC") on January 19, 2011 for approximately \$212 million in cash. FICC is principally engaged in providing investment management services throughout the U.S. as the investment advisor to, and the distributor for, certain mutual funds, the development and distribution of certain proprietary insurance products, and providing transfer agent services ancillary to its other businesses.

This transaction will be accounted for using the purchase method and is expected to increase Foresters total general fund assets by approximately \$358 million (unaudited) and assets under management by approximately \$7.1 billion (unaudited). These amounts have been estimated and are subject to adjustments, once the closing balances have been finalized.