



Sharing our Strength



During the past year, I've been meeting many people who are eager to know more about Foresters – and I'm always proud to share our story.

Foresters™ is a different kind of financial services organization. We do not have shareholders, and our customers become members of our organization when they buy a Foresters financial product.

As a Foresters member, you share a more personal and rewarding relationship with us. Our financial needs-based approach to selling ensures our product recommendations are tailor-made for your family's financial security and peace of mind. And when you buy Foresters life insurance or a Foresters annuity, you're also eligible for Foresters Member Benefits, which include competitive scholarships for your children.

Foresters remains financially strong, despite global economic uncertainties. Our strong surplus and quality assets help keep your investments secure. They also enable Foresters to give back generously to help members. This past year, Foresters shared the success of our prudent financial management with our members by removing membership fees. This resulted in a one-time charge against our earnings of \$38 million (Cdn).

Each year we partner with Children's Miracle Network (North America), Barnardo's Children's Charity

(United Kingdom) and other organizations to help more than 17 million children. Last year, our partnerships helped raise both awareness and funds worth \$39 million (Cdn.) for children across North America and the United Kingdom.

Foresters partnerships extend beyond raising money. In 2002, our members and employees volunteered more than 1.5 million hours in our communities.

I'm proud to tell you that at Foresters, we've been sharing our strength with our members and our communities for more than 128 years.

Key business achievements in 2002

Confidence in Foresters financial stability and strategic direction was acknowledged by the A.M. Best Company by reaffirming our financial strength rating of A (Excellent).

In the United Kingdom, on an annualized basis our sales increased by 21 percent over 2001. In North America, where we more recently rebuilt our sales force, our sales doubled over 2001.

Our new brand image was launched in the Spring, marking a turning point in our organization – a milestone after three years' work and a determined, collective focus to renew our organization. A brand is much more than a logo and a tagline. The Foresters brand captures the

uniqueness of our organization and demonstrates our promise to serve you in building a stronger, richer and more meaningful future for you, your family and the community around you.

Foresters quality and service were recognized by several prestigious awards: Canadian Information Productivity Award's top Customer Care award for our innovative use of technology, people and processes; the Call Center Networking Group's "Call Center Manager of the Year Award" for our director, North American Service Center; the International Association of Business Communicators' Silver Leaf Award for Foresters brand launch; and the runner-up award for the "Best Point of Sales Award – Technology" in the United Kingdom.

In the midst of uncertain markets, we remain financially strong and committed to investing in your financial security and sharing with your community.

And for that, I offer my sincere thanks to our members and staff for a productive and inspiring year.

Michael J. White
President and CEO

2002 Financial Highlights

BOARD OF DIRECTORS

J. Christopher Wansbrough
(Chair)
Ontario, Canada

Bernard E. Bloom
Southampton, United
Kingdom

Patrick L. Culver
Illinois, United States

G.A. (Dean) Francey
British Columbia, Canada

Patrick W. Kenny
Connecticut, United States

Hugh F. Lindsay
British Columbia, Canada

Barbara J. McDougall
Ontario, Canada

Alexander Mikalachki
Ontario, Canada

E. Irene Miles
California, United States

Debra A. Roessler
Pennsylvania, United States

Barbara A. Spencer
Alberta, Canada

Clifford V. Thorne
District of Columbia,
United States

W. Ross Walker
Ontario, Canada

Michael J. White
Ontario, Canada

INTERNATIONAL FRATERNAL PRESIDENT

William B. Foster
Florida, United States

SENIOR MANAGEMENT TEAM

Michael J. White
President and
Chief Executive Officer

Nicholas J. DiRenzo
Senior Vice President
Sales and Marketing,
Canada

George M. Habib
Senior Vice President
Fraternal

Lynn Haight
Senior Vice President and
Chief Financial Officer

Glenn Hymers
Senior Vice President
Sales and Marketing,
United States

Suanne Nielsen
Senior Vice President
Human Resources and
Communications

George Mohacsi
Senior Vice President
Operations and Information
Technology

Peter Robinson
Senior Vice President and
Group Managing Director,
United Kingdom

Paul M. Winokur
Senior Vice President and
Chief Actuary

Foresters remains financially strong and focused on meeting the needs of our members. But like all financial institutions, the organization was affected by the continuing decline in the equity markets and interest rates at 45-year lows.

Foresters net loss of \$31 million reflects the continuing decline in the equity markets. This net loss also includes the impact of a \$24 million one-time effective distribution of surplus to members for the removal of membership fees. In addition to this distribution, our results incorporate \$35 million of dividends paid to our members and \$15 million spent on strategy implementation to continue to build the foundation for the renewed expansion of the business.

Foresters ability to fulfill financial commitments to members continues to be excellent. Our strong capital position, surplus of \$864 million and strong solvency ratios in all three countries serve well to protect our members and their investments and allow Foresters to remain healthy in the current uncertain economic environment.

Our strong capital position is further demonstrated by our A (Excellent) rating,* which was re-affirmed for 2002 by the A.M. Best Company.

Summary

- Despite difficult economic times, premium income increased by \$18 million. Much of this growth is due to strong persistency and the attractiveness of our fixed annuity products in an uncertain investing climate. In the United Kingdom, Foresters saw continued strong investment sales through our Open Ended Investment Company, our United Kingdom segregated investment sales business.

- Due to the weak equity markets in North American and the United Kingdom and low interest rates, our net investment income decreased by \$35 million over 2001. Despite these lower returns, Foresters still exceeded our benchmarks based on industry standards and continues to maintain a high quality investment portfolio.
- Foresters proactive business conservation program, competitive interest rates combined with uncertain investment markets all contributed to a \$5 million improvement in policy benefits.
- Operating expenses and agent compensation increased by \$15 million. The primary factor contributing to this growth is Foresters commitment to growing our North American field force, which increased by 41 percent over 2001.
- Member benefits paid directly to our members and Foresters community investment totaled \$17 million, an increase of 9 percent over 2001, in direct support of our members and communities.

Investments

Foresters maintains an investment portfolio consisting primarily of high quality bonds and long-term equity holdings. Bonds represent 67 percent of total assets and are matched to the duration and profile of the policy liabilities they support. Equity investments represent 22 percent of total assets.

* An A (Excellent) rating is assigned to companies that have a strong ability to meet their ongoing obligations to policyholders and have, on balance, excellent financial strength, operating performance and market profile when compared to the standards established by the A.M. Best Company. A.M. Best assigns ratings from A⁺⁺ to F, with A⁺⁺ and A⁺ being superior ratings and A and A⁻ being excellent ratings.

Consolidated Statement of Income (summarized)

December 31, 2002, with comparative figures for 2001 (In thousands of U.S. dollars)

	2002 US Dollars	2001 US Dollars
Revenue:		
Premiums	212,148	194,434
Net investment income	234,492	269,383
Other income	22,922	11,670
	<u>469,562</u>	<u>475,487</u>
Policy benefits and expenses:		
Policy benefits	233,332	238,079
Change in policy liabilities	27,613	16,092
Membership fee removal	24,125	-
Strategy implementation costs	15,023	22,931
Community Investment	9,075	7,942
Dividends to members	35,297	35,023
Operating expenses and agent compensation	151,828	137,083
	<u>496,293</u>	<u>457,150</u>
Totals		
Income (loss) before income taxes	(26,731)	18,337
Income taxes	4,641	8,884
Net Income (loss)	<u>(31,372)</u>	<u>9,453</u>

Consolidated Balance Sheet (summarized)

December 31, 2002, with comparative figures for 2001 (In thousands of U.S. dollars)

	2002 US Dollars	2001 US Dollars
Assets		
Investments:		
Cash and short-term securities	59,268	172,296
Bonds and other fixed-term securities	2,818,209	2,703,105
Mortgages	117,445	164,159
Common shares	926,429	905,856
Real estate	23,571	32,130
Loans to policyholders	169,265	174,639
Other invested assets	6,938	8,167
	<u>4,121,125</u>	<u>4,160,352</u>
Other assets	83,334	82,447
	<u>4,204,459</u>	<u>4,242,799</u>
Liabilities and Surplus		
Policy liabilities:		
Policy benefits under insurance and fraternal certificates	2,319,169	2,292,077
Policy benefits under annuity contracts	560,796	519,336
	<u>2,879,965</u>	<u>2,811,413</u>
Other insurance certificate and contract liabilities	67,033	70,252
Other liabilities	44,056	37,960
Deferred net gains realized on disposal of investments	349,388	420,616
Surplus	864,017	902,558
	<u>4,204,459</u>	<u>4,242,799</u>

* The consolidated statement of income and consolidated balance sheet are presented in U.S. dollars, whereas the full financial statements from which they were prepared are presented in Canadian dollars. The December 31, 2002 exchange rate of 1.5776 was used to translate into U.S. dollars.

2002 Annual Report



Canada

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fax: 020 8628 3500
Web: www.foresters.co.uk

Principal Subsidiaries

United States

Foresters Equity Services, Inc.
(FESCO) (U.S.)
Web: www.forestersequity.com

United Kingdom

Forester Financial Services Ltd.
Forester Health Ltd.
Forester Investments Ltd.
Forester Life Ltd.
Web: www.foresters.co.uk

Canada

Foresters Securities (Canada) Inc.

Foresters™ is a trademark of The Independent Order of Foresters, a fraternal benefit society.

The 2002 financial statements of Foresters, which are summarized in this report, can be obtained by writing to:

Lynn Haight
Senior Vice President and
Chief Financial Officer
Foresters
Foresters House
789 Don Mills Road
Toronto, Ontario
M3C 1T9

Auditors' Report

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

The accompanying consolidated balance sheet (summarized) and consolidated statement of income (summarized) are derived from the complete consolidated financial statements of The Independent Order of Foresters (Foresters) as at December 31, 2002 and for the year then ended on which we expressed an opinion without reservation in our report dated February 17, 2003. The fair summarization of the complete consolidated financial statements is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the summarized consolidated financial statements.

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

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

KPMG LLP

Chartered Accountants
Toronto, Canada
February 17, 2003

Appointed Actuary's Report

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

I have valued the policy liabilities of The Independent Order of Foresters (Foresters) for its complete consolidated balance sheet as at December 31, 2002 and their change in its consolidated statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods and expressed an opinion on these liabilities without reservation in my report dated February 17, 2003.

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

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

Paul M. Winokur
Fellow, Canadian Institute of Actuaries
Toronto, Canada
February 17, 2003