



# Building together for the future

At Foresters™, we're proud of our financial strength and deep commitment to our members, their families and their communities. Together, we're building Foresters growth and prosperity for generations to come.

Managed with fiscal responsibility, prudent investment policies and sound governance, Foresters financial strength has helped us weather global and economic uncertainties that affect the marketplace and continues to protect our members' benefits and the future of our great organization.

## The Business

Overall, Foresters financial performance in 2004 was very strong:

- Net income of \$33.8 million increased \$7 million over 2003.
- At \$1.1 billion, our surplus, on a relative size basis, is well above that held by most financial services providers.
- Our solvency ratios remain robust in our three member countries: the United States, Canada and the United Kingdom.
- Net investment income of \$378 million increased by \$14 million over 2003.

Sales revenues in 2004 were lower than anticipated, however, our U.K. and Canadian operations maintained premium levels in line with 2003 results.

Foresters paid out \$335 million in policy benefits to members in 2004 compared with \$332 million in 2003.

Operating expenses and strategic implementation costs decreased by

\$8 million compared to 2003. Further cost reductions began early in 2005 with the outsourcing of some information technology services and systems, just one part of the expense reductions for the year. Going forward we remain committed to both increasing our revenue and supporting only expenses that truly add value to Foresters.

## Community Impact

Foresters impact on the communities in which our members live continues to increase greatly.

- Foresters total community investment in 2004 was \$18 million.
- Our members and employees volunteered more than 4.5 million hours of their personal time with organizations, charities and local fundraising activities – more than double our previous record of 1.8 million volunteer hours in 2003.
- Together our members and employees helped Foresters charitable and community partners raise more than \$58 million, a substantial increase over \$44 million in 2003.
- The total value of Foresters contributions to our members' communities (in the form of funds raised and volunteer hours at established values) was more than \$153 million in 2004, up substantially from \$85 million in 2003.

Foresters support of children's causes through national community partnerships included \$2.9 million contributed directly to Children's Miracle Network (North America),

and more than £1 million to Barnardo's Children's Charity and the Association of Children's Hospices (United Kingdom).

Reaching out to assist tsunami victims, Foresters provided an initial corporate donation of \$10,000 to UNICEF and will match our Branches' fundraising efforts up to a total contribution of \$100,000.

## Looking Ahead

I am optimistic that we can continue to build a strong business model for Foresters that promotes revenue growth and reflects our status as a fraternal benefit organization that is both caring and financially strong.

Our immediate priorities, already well underway, are to improve the effectiveness of our sales force; sell more Foresters life insurance to increase our financial results; balance our revenue and expenses; and better engage our active members in defining Foresters future.

My thanks to our members and employees for your commitment and hard work in the past year, and for your continued discipline and support for the year ahead. Together we can build a vibrant future that cherishes Foresters heritage.

George Mohacsi  
President and CEO

## BOARD OF DIRECTORS

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(Chair)  
Ontario, Canada

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George Mohacsi  
Ontario, Canada

## INTERNATIONAL

**FRATERNAL PRESIDENT**  
William B. Foster  
Florida, United States

## SENIOR

### MANAGEMENT TEAM

George Mohacsi  
President and CEO

Lynn Haight  
Chief Operating Officer  
and Chief Financial Officer

Nicholas J. DiRenzo  
Senior Vice President  
North American Sales

Suanne Nielsen  
Senior Vice President  
Human Resources and  
Communications

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

William (Bill) Valiquette  
Senior Vice President  
Membership Governance

Paul M. Winokur  
Senior Vice President and  
Chief Actuary

## The Business

Foresters consolidated net income of \$33.8 million represents a \$7 million increase over 2003 results, resulting primarily from improving equity markets and an anticipated higher interest rate environment and its impact on liabilities representing members' annuity products. These benefits were offset by one-time charges due to organizational restructuring and adjustments to post retirement benefits in North America.

The primary reason for the 9 percent decrease in premiums was a 34 percent decline in U.S. annuity new business sales due to current low interest rates and challenges in recruiting and retaining experienced Foresters representatives. Conversely, the interest rate environment was instrumental in Foresters achieving a 50 percent increase in third-party mutual fund deposits over 2003. U.K. and Canadian operations maintained insurance and annuity premium levels in line with prior year results.

Net investment income was \$378 million in 2004. Continued improvement in equity markets and overall improved investment performance account for an increase of \$14 million over 2003 results.

During 2004 Foresters incurred \$335 million in policy benefits and \$47 million in policy dividends paid to members for a total of \$382 million. The total payment of policy benefits incurred and dividends paid to members in 2003 was also \$382 million.

In all three countries cost containment initiatives continued. Excluding the noted one-time adjustments for reducing future post retirement benefit costs and a restructuring charge, operating expenses and strategic implementation costs declined by \$8 million.

Foresters community investment and support costs totaled \$24 million in 2004 in support of members and their communities; this amount includes the cost of operating Foresters Branch system.

## Currency Impact

A substantial portion of Foresters business is carried out in the United States and the continued strengthening of the Canadian dollar relative to the U.S. dollar impacts our Canadian dollar results. Total assets decreased from \$5.6 billion in 2003 to \$5.4 billion in 2004, a 4 percent decrease, while the Canadian dollar rate improved by over 7 percent compared to the U.S. dollar throughout 2004. U.S. dollar revenue and expense items felt a similar impact as the average exchange rates for 2004 over 2003 also increased by 7 percent. A substantial portion of expenses related to our U.S. business is incurred in Canadian dollars and as a result Foresters has entered into forward exchange contracts to limit the exposure to foreign exchange rate fluctuations between the Canadian and U.S. currencies.

The following chart highlights the impact foreign exchange rates have on major income statement and balance sheet items extracted from our Canadian dollar financial statements:

(in thousands of Canadian dollars)	2004	2003	(2004 minus 2003) Variance increase (decrease)	Amounts recorded in 2004 would have been higher by the following if the currency impact was neutral
<b>Income statement items</b>				
Revenue	688,984	703,550	(14,566)	31,719
Policy benefits, expenses and taxes	655,146	676,665	(21,519)	27,822
Net income	33,838	26,885	6,953	3,897
<b>Balance sheet items</b>				
Total assets	5,432,820	5,647,620	(214,800)	312,330
Total liabilities	4,310,215	4,484,019	(173,804)	231,005
Surplus	1,122,605	1,163,601	(40,996)	81,325

## Capital Structure

Foresters ability to fulfill its financial commitments to members remains excellent. Foresters surplus exceeds \$1.1 billion. Solvency ratios are prescribed by regulators in all three countries to protect members and their investments. This also allows Foresters to preserve its financial strength well into the future. Foresters solvency ratios are very strong.

Supporting these ratios is an investment portfolio consisting primarily of high quality bonds and long-term equity holdings. Bonds represent 70 percent of total assets and are closely matched to the duration and profile of the policy liabilities they support. Equity investments represent 19 percent of total assets.

Our robust capital position is further demonstrated by our A (Excellent) rating,\* which was re-affirmed for 2004 by the A.M. Best Company.

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

## Consolidated Balance Sheet (summarized)

December 31, 2004, with comparative figures for 2003 (in thousands of Canadian dollars)

	2004 Cdn Dollars	2003 Cdn Dollars
<b>Assets</b>		
<b>Investments:</b>		
Cash and short-term securities	85,015	91,090
Bonds and other fixed-term securities	3,833,388	3,949,048
Mortgages	81,193	124,223
Common shares	1,055,319	1,087,234
Real estate	35,093	34,147
Loans to policyholders	204,900	222,154
Other invested assets	14,274	6,774
	<u>5,309,182</u>	<u>5,514,670</u>
Other assets	123,638	132,950
	<u>5,432,820</u>	<u>5,647,620</u>
<b>Liabilities and Surplus</b>		
<b>Policy liabilities:</b>		
Policy benefits under insurance certificates and annuity contracts	3,708,387	3,908,729
Other insurance certificates and contract liabilities	82,152	87,487
Other liabilities	76,535	68,066
Deferred net gains realized on disposal of investments	443,141	419,737
Surplus	1,122,605	1,163,601
	<u>5,432,820</u>	<u>5,647,620</u>

## Consolidated Statement of Income (summarized)

December 31, 2004, with comparative figures for 2003 (in thousands of Canadian dollars)

	2004 Cdn Dollars	2003 Cdn Dollars
<b>Revenue:</b>		
Premiums	282,934	311,174
Net investment income	377,866	363,609
Other income	28,184	28,767
	<u>688,984</u>	<u>703,550</u>
<b>Policy benefits and expenses:</b>		
Policy benefits	334,741	331,510
Increase in policy benefits	4,061	33,852
Strategy implementation costs	1,731	7,310
Community Investment	17,782	19,092
Dividends	47,447	50,969
Agent compensation	54,416	57,311
Operating expenses	189,291	182,247
	<u>649,469</u>	<u>682,291</u>
Income before income taxes	39,515	21,259
Income taxes (recovery)	5,677	(5,626)
<b>Net Income</b>	<u>33,838</u>	<u>26,885</u>



**Canada**

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**United Kingdom**

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Web: [www.foresters.co.uk](http://www.foresters.co.uk)

**Principal Subsidiaries**

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Fax: 858 550 2056

**Canada**

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Fax: 416 467 2484  
Toll Free: 1 800 461 6729

**United Kingdom**

Forester Financial Services Ltd.  
Forester Health Ltd.  
Forester Investments Ltd.  
Forester Life Ltd.  
Web: [www.foresters.co.uk](http://www.foresters.co.uk)

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

The 2004 financial statements of Foresters, which are summarized in this report, can be obtained by writing to:

Lynn Haight  
Chief Operating Officer  
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 summarized consolidated balance sheet and consolidated statement of income are derived from the complete consolidated financial statements of The Independent Order of Foresters ("Foresters") as at December 31, 2004 and for the year then ended on which we expressed an opinion without reservation in our report dated February 14, 2005. 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 14, 2005

**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, 2004 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 14, 2005.

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 14, 2005