

Best's Rating Report

Foresters

Investing · Sharing · Inspiring™



THE INDEPENDENT ORDER OF FORESTERS

Toronto, Ontario, Canada



A

Ultimate Parent: Independent Order of Foresters

THE INDEPENDENT ORDER OF FORESTERS

789 Don Mills Road
Toronto, ON, Canada M3C 1T9
Web: www.foresters.com

Tel.: 416-429-3000

AMB#: 060132

Ultimate Parent#: 060132

Fax: 416-467-2526

Data shown throughout this report is in Canadian dollars.

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the company's Financial Strength, it is assigned a Best's Financial Strength Rating of A (Excellent). The company's Financial Size Category is Class XIII.

RATING RATIONALE

Rating Rationale: The rating of the Independent Order of Foresters (Foresters or "the Society") reflects its long-established presence as a Canadian fraternal benefit society; its cross-border geographic diversification with a life insurance presence in the United States, United Kingdom, and Canada; and its strong risk-adjusted capitalization and profitable operations, including improved investment results. Partially offsetting these factors are top-line challenges to sustain new membership growth, ability to improve its statutory operating losses in its U.S. operations and continued efforts to further reduce expense overruns while improving overall consolidated profitability.

For more than 135 years, Foresters has been providing fraternal benefits as well as a full array of protection and asset accumulation products to its members in Canada, the United States, and the United Kingdom. The rating acknowledges the Society's continuing strategic focus aimed at strengthening its sales and marketing as well as service capabilities. With the exception of a net loss reported in the year 2008 as a result of losses in its investment portfolio, Foresters overall consolidated operating performance has been profitable over the past five years, including a very successful 2009 with

increased sales and improved persistency. Foresters large surplus base and stable book of life insurance liabilities have enabled the Society to expand its technology platform, support its community investments and fraternal operations, and have allowed the Society to maintain a competitive dividend scale. Foresters risk-adjusted capitalization remains favorable, enhanced by a high credit quality fixed-income investment portfolio and an actively managed asset/liability management program. Positive investment returns were also one of the largest contributors to Foresters favorable net income and increased consolidated surplus position in 2009.

While Foresters overall consolidated operating performance is profitable, its earnings have been unfavorably affected by investments in technology and infrastructure, and a relatively high, but reduced, operating cost structure. Foresters continues to reduce its operating expense overruns associated with integration of acquisitions and overall operating efficiencies. Nonetheless, its U.S. operations continue to record statutory operating losses due to new business strain, continuing expense overruns and increased surrender benefits and withdrawals. However, net operating losses declined significantly for the U.S. branch as renewal business income offset new business reserve strain and expense overruns. As with many fraternal benefit societies, Foresters has been challenged in recent years to increase and sustain its membership base. New distribution agreements with Independent Marketing Organizations entered into during 2007 have been very successful in capturing growth in the U.S. marketplace, while the acquisition of Unity Life in 2008 has tripled its premium revenue in Canada. The majority of the company's equity investments is held to support its surplus base and is below the limits imposed by the Insurance Companies Act of Canada.

Best's Financial Strength Rating: A

Outlook: Stable

FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
05/07/10	A	01/09/08	A
05/08/09	A	09/20/06	A
04/03/08	A	08/30/05	A

Best's Rating Report

KEY FINANCIAL INDICATORS (\$000)

Year	Assets	Total Capital		Net Premiums Written	Net Invest Income	Net Income
		Capital Surplus Funds	AOCI			
2005	4,755,515	1,155,828	...	239,746	316,739	65,797
2006	4,867,355	1,196,343	...	287,604	311,740	33,233
2007	4,540,982	1,416,331	-143,400	202,197	325,917	138,835
2008	4,886,986	1,243,335	-119,270	220,690	656	-197,126
2009	4,408,911	1,357,316	-100,947	250,593	125,315	95,658

CORPORATE OVERVIEW

The Independent Order of Forester (Foresters) is a fraternal benefit society organized and registered under the Insurance Companies Act of Canada. Foresters manages and reports its operations on a Canadian GAAP basis in Canadian dollars. Originally founded in 1874 as an outgrowth of the Ancient Order of Foresters (U.S.), Foresters governance structure includes an International Assembly, 25 regional Assemblies, and more than 300 active branches located throughout the United States, Canada, and the United Kingdom. Individuals become voting members of the Society when they accept its Common Bond and are insured under a proprietary life insurance or investment product from Foresters or one of its wholly owned insurance subsidiaries. Non-Voting membership status is available for junior certificate holders and certain non-proprietary product holders. With a membership of approximately seven hundred thousand individuals, Foresters measures its success not only through financial strength, but also by the positive impact it has in the community, with a primary focus on championing the well-being of families. Foresters is active in local communities, promoting family-focused events and volunteer opportunities. Foresters is also active in children's charitable organizations and has contributed substantially to Children's Miracle Network in North America and Children's Hospices in the United Kingdom. Among its fraternal benefits are scholarship programs, young family fraternal benefits, and critical illness benefits.

The majority of Foresters business is conducted in the United States, with geographic diversification achieved through its operations in Canada and the United Kingdom. Foresters wholly owned insurance subsidiaries include Forester Holdings (Europe) Ltd. which is the immediate parent company of Forester Life Limited where all UK life insurance business is written, Unity Life of Canada, acquired in 2008 to enhance Foresters presence in the Canadian life insurance market and Foresters Equity Services Inc. (US), a broker/dealer that markets variable insurance products and U.S. mutual funds from over 30 different companies to Foresters membership.

CORPORATE STRUCTURE

AMB#	COMPANY NAME	DOMICILE	% OWN
060132	Independent Order of Foresters	Canada	
055508	Forester Holdings (Europe) Ltd	United Kingdom	100.00
087352	Forester Life Limited	United Kingdom	100.00
066847	Unity Life of Canada	Canada	100.00

BUSINESS REVIEW

Foresters focuses on the middle-income market combining its financial service expertise with its community involvement. The Society transitioned its U.S. sales force from career agents to independent agents in 2007. The introduction of an alternative distribution channel through a U.S. Independent Marketing Organization (IMO) in 2005 was very successful and resulted in the appointment of over 6,800 agents by the end of 2007. This IMO and additional IMO relationships entered into in the recent three years, including 2009, have been successful in substantially increasing proprietary sales in the United States.

Currently in the United States, Foresters markets a range of life insurance products, including universal life, whole life, term and annuities, through Independent Marketing Organizations (IMOs). In addition, variable products and mutual funds are offered through Foresters wholly owned subsidiary, Foresters Equity Services, Inc (FESCO). In the recent years, Foresters recruited a number of IMOs and increased the number of contracted producers to well over 22,000. The U.S. operations continue to focus on: diversifying the

product portfolio, through the introduction of new permanent products; recruiting additional IMOs and producers to sell Foresters; marketing the Foresters value proposition to appointed producers; providing producers with a good service experience; and leveraging Foresters fraternal nature with prospects and members.

Foresters strategic positioning in the Canadian marketplace, including marketing and distribution capabilities, were enhanced greatly with the acquisition of Unity Life of Canada in early 2008. Unity Life continues its focus on its traditional life insurance business through its national network of independent distribution partners, and on its group creditor and pre-ned insurance lines. A subsidiary of Foresters, Unity Life is also Foresters primary marketing representative in Canada and offers Foresters proprietary products - universal life insurance, participating whole life, and fixed interest annuities - through its independent distribution channel.

In the United Kingdom, Foresters continues to raise name and brand awareness, build its captive distribution sales force and improve its productivity, enhance its product portfolio, and target new membership while encouraging greater membership affinity and participation. In addition to traditional life insurance, Forester Life offers a range of unit linked savings and investment products including tax efficient deferred annuities, individual savings accounts and child trust funds.

Foresters has been investing considerable resources in updating outdated systems and processes focusing on product administration, data quality and sales tools. A.M. Best notes that these initiatives have provided a more efficient business process, improved data quality, and contributed to increased sales of proprietary products.

PREMIUM AND RESERVE ANALYSIS

Direct Premiums (000)	2009	2008	2007	2006	2005
Individual life	218,576	196,914	167,301	162,388	170,085
Individual annuities	31,592	24,954	36,527	127,371	70,706
Individual A&S	185	190	465	300	357
Total	250,353	222,058	204,293	290,059	241,148
Reins Assumed Prens (000)	2009	2008	2007	2006	2005
Individual life	1,707	952	...	...	...
Total	1,707	952	...	...	...
Reins Ceded Prens (000)	2009	2008	2007	2006	2005
Individual life	1,467	2,320	2,096	2,455	1,402
Total	1,467	2,320	2,096	2,455	1,402
Net Premiums (000)	2009	2008	2007	2006	2005
Individual life	218,816	195,546	165,205	159,933	168,683
Individual annuities	31,592	24,954	36,527	127,371	70,706
Individual A&S	185	190	465	300	357
Total	250,593	220,690	202,197	287,604	239,746

EARNINGS

Foresters has experienced a dramatic turn-around in profitability in 2009 relative to 2008 mostly due to reversal of investment income results. Overall, the company has been profitable in each of the preceding 4 years with the exception of 2008, when investment losses negatively impacted net income. Foresters reported net operating gains on a consolidated basis in each of its country operations in the most recent year. Besides favorable investment returns, another reason for the increase was revenue growth in all lines of business, with the latter resulting in an 11% growth in consolidated premium income for the overall organization. Foresters operational results have also been enhanced by favorable mortality experience and the implementation of strategies aimed at reducing both maintenance and acquisition costs. Operational results in recent years benefited from cost reduction initiatives, one-time reserve releases that more than offset one-time charges due to organizational restructuring, adjustments to post retirement benefits and in 2008, charges associated with Foresters acquisition of Unity Life of Canada. A. M. Best notes that starting in 2002, operational results were negatively

Best's Rating Report

impacted by the elimination of branch dues and recent fluctuations in the Canadian/U.S. dollar exchange rates have had a significant impact on operational results as well as total assets and surplus. A. M. Best also notes that reported net income is after significant community investment and dividends paid to members in all three geographic regions.

Foresters maintains insurance operations in the United States, United Kingdom and Canada. Foresters U.S. branch operations is its largest, representing almost 44% of premiums in 2009. Foresters has reported statutory operating losses for its U.S. branch over the past few years as a result of new business reserve strain and cost overruns. Foresters has made significant reductions in expenses over the past couple years as it continues to improve the marketing infrastructure of its U.S. operations. A.M Best notes that the results of the country operations do not include any of the investment income generated by Foresters substantial excess world surplus. Foresters Canadian operations represented approximately 25% of total premium production in 2008 which represents an 11% increase over the past two years due to acquisition of Unity Life of Canada in early 2008. The UK operations represent approximately 31% of Foresters total premiums in 2009 and have also been profitable and annual expense overruns have been minimal.

While Foresters overall operating performance is mostly profitable with the exception of 2008, earnings growth has been somewhat impacted by significant investment in technology and infrastructure, and a relatively high unit operating cost structure. Foresters has been successful in recent years in implementing strategies to reduce expenses including reductions in many corporate and support areas through restructuring and the transitioning of its sales force from career agents to independent agents in 2007. Infrastructure costs in the North American field operations have decreased substantially with the transition to a fully independent U.S. field force. Additionally, Foresters has outsourced its information technology to further reduce costs, improve efficiencies, and provide Foresters a broader range of information technology skills. Although Foresters operations are somewhat diversified geographically in three countries, the majority of the Society's business revenue continues to be generated from its United States operations.

PROFITABILITY TESTS

Year	Ben Paid to NPW	Comm & Exp to NPW	NOG to Tot Assets	NOG to Tot Rev	Operating Return on Equity	Net Yield	Total Return
2005	112.3	78.3	1.4	11.2	5.8	7.08	7.82
2006	119.4	64.9	0.7	5.3	2.8	6.86	7.42
2007	123.0	82.2	3.0	25.3	10.6	7.37	3.51
2008	108.9	84.6	-4.2	-85.9	-14.8	0.01	0.54
2009	102.5	80.2	2.1	24.1	7.4	2.87	3.28

CAPITALIZATION

Foresters maintains a more than adequate level of surplus in relation to its overall business profile and investment risks despite foreign exchange rate fluctuations, elimination of branch dues, and a large decline in total surplus in 2008 due to investment losses, which resulted from the overall deterioration in the U.S. and global economy. Despite strong sales growth of 2009 and investment losses of 2008, Foresters risk-adjusted capital position remains well above industry averages and is enhanced by its high credit quality fixed-income investment portfolio and an actively managed asset/liability management process. Additionally, Foresters has entered into forward exchange contracts that somewhat mitigate its exposure to foreign exchange rate fluctuations between Canadian and United States currencies. A. M. Best notes that Foresters risk-adjusted capitalization ratio as measured by the Canadian regulator (MCCSR) remains among the highest for any large Canadian life insurance organization.

LEVERAGE TESTS

Year	C&S to Liabilities	Surplus Relief	Reins Leverage	NPW to Capital	Change in NPW	Change in Capital
2005	32.1	...	...	0.2	10.1	3.0
2006	32.6	...	...	0.2	20.0	3.5
2007	45.3	...	...	0.1	-29.7	18.4
2008	34.1	...	...	0.2	9.1	-12.2
2009	44.5	...	...	0.2	13.5	9.2

2009 BCAR: 298

CAPITAL TRENDS (\$000)

Year	Year end C&S	Sub-ordinated Debt	Share-holder Divs	Policy-holder Divs	AOCI
2005	1,155,828	...	...	35,807	...
2006	1,196,343	...	...	34,727	...
2007	1,416,331	...	...	33,614	-143,400
2008	1,243,335	...	...	34,665	-119,270
2009	1,357,316	...	...	33,378	-100,947

(*) Beginning 2007, Capital/Surplus includes Accumulated Other Comprehensive Income/(Loss) (AOCI).

INVESTMENTS AND LIQUIDITY

The majority of Foresters invested assets are comprised of fixed-income securities, common shares, cash, and short-term investments. Fixed-income obligations are comprised of corporate issues, public utilities, mortgage-backed securities, and Government debt. Credit quality of its fixed-income portfolio is very high with minimal below investment grade holdings. A. M. Best notes that Foresters maintains relatively modest exposure to collateralized mortgage obligations that is offset by a concentration in more conservative tranches mitigating somewhat prepayment and extension risks.

After the 2008 economic downturn and its subsequent effect on Foresters, the company revised its investment policy in 2009, in particular the world surplus asset allocation, reducing exposure to the equity market volatility. World surplus is now split into two pieces, a short term liquid pool of fixed income securities to support business growth and a long term total return oriented pool with a medium risk profile with additional diversification in emerging markets and commodities.

A. M. Best notes that Foresters maintains a high level of unaffiliated common stock relative to its total surplus that exposes it to market volatility and negative investment performance. However, A. M. Best also notes that the majority of the common shares is held to support its risk-free surplus base. Foresters common shares represent approximately 16% of total invested assets. Foresters utilizes experienced third party investment managers to manage its equity portfolio, except for the REIT portfolio, which is managed internally, and an international manager, which was replaced with index fund in 2009. Foresters continues to manage and refine its asset/liability management program with an added emphasis on credited interest rate floors.

Foresters mortgage and real estate portfolios have been significantly reduced over the past several years and currently represents a modest proportion of invested assets. Properties that remain in the mortgage portfolio are performing well, and are multiple residential and retail establishments. Real estate is comprised of facilities used by the society.

LIQUIDITY TESTS

Year	Operating Cash Flow (\$000)	Quick Liquidity	Current Liquidity	Non-Inv Grade Bonds to Capital	Delinq & Foreclsd Mtg to Capital	Mtg & Cred Ten Lns & RE to Cap	Affil Invest to Capital
2005	-25,776	17.1	115.9	...	...	6.7	5.3
2006	100,044	17.1	117.0	...	...	5.6	6.6
2007	53,743	18.1	128.6	...	...	3.5	7.5
2008	90,491	11.1	118.3	0.2	...	3.5	14.1
2009	39,157	11.4	126.7	2.7	...	2.7	14.8

HISTORY

Date Incorporated: 07/23/1881 **Date Commenced:** 07/23/1881

Domicile: Canada

Mergers: Ancient Order of United Workmen of Ontario, 1926; Order of Canadian Home Circles, 1926; Royal Templars of Temperance, 1931; Modern Brotherhood of America, 1931; Catholic Mutual Benefit Association, 1952; Royal Clan, Order of Scottish Clans, 1971; Canadian Foresters Life Insurance Society, 1992; London Area Mobile Physiotherapy Service Limited. (United Kingdom subsidiary), 1996, Unity Life of Canada, 2008.

Best's Rating Report

OFFICERS

President and Chief Executive Officer, George S. Mohacsi; Presidents and Senior Vice Presidents, Euan Allison (UK Division), Christopher H. Pinkerton (US Division), Anthony W. Poole (Canadian Division); President, Bernard E. Bloom (International Fraternal); Senior Vice President and Chief Financial Officer, Sharon T. Giffen; Senior Vice President and Chief Information Officer, Peter Sweers; Senior Vice President and Chief Administrative Officer, Suanne M. Nielsen; Senior Vice President, Secretary and General Counsel, Katharine E. Rounthwaite; Senior Vice President, Kasia Czarski (Chief Membership & Marketing Officer); Vice President, Treasurer and Controller, J. Stephen McDonald.

DIRECTORS

Bernard E. Bloom, Richard M. Freeborough (Chairman), Karen L. Gavan, Brian A. Isabelle, Robert E. Lamoureux, Frank N.C. Lochan, Martha E. Marcon, Louise L. McCormick, Christopher H. McElvaine, George S. Mohacsi (ex-officio), Laraine J. Morris, David E. Morrison, David R. Saunders, John B. Scott, Christopher J. Stranahan.

REINSURANCE

The maximum net retention on any one life is \$1,000,000.

REGULATORY

An examination of the financial condition was made as of December 31, 2008 by the Insurance Department of New York. An annual review was also conducted by the Office of the Superintendent of Financial Institutions, Canada. Annual audits in the U.K. are conducted by the Financial Services Authority. The 2008 annual independent audit of the company was conducted by KPMG, LLP. The annual statement of actuarial opinion is provided by Paul M. Winokur, FCIA, MAAA, Consulting Actuary.

Territory: The company is licensed in the provinces of Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island, Quebec and Saskatchewan. It is also licensed in the United States in the District of Columbia, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NY, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VA, WA, WV, WI and WY. The company has licensed subsidiaries in Great Britain.

Reserve basis: (Current ordinary business): In accordance with the Canadian Asset and Liability Method. Explicit assumptions made for interest, mortality, lapse, expense. Assumptions are updated as indicated by emerging experience. Margins for adverse deviation are added to each assumption.

FINANCIAL INFORMATION BALANCE SHEET (\$000) - December 31, 2009

Assets		Liabilities	
Bonds	3,292,966	Net actuarial liabilities	2,904,180
Common shares	640,434	Other policy liabilities	86,407
Mortgage loans	15,317	Other liabilities	42,419
Real estate	21,069	Net def gains/losses	18,589
Contract loans	175,007	Total Liabilities	3,051,595
Short-term investments	61,818	Policyholders equity	1,357,316
Other invested assets	129,102		
Accrued invest income	36,774		
Other assets	36,424		
Assets	4,408,911	Total	4,408,911

SUMMARY OF OPERATIONS (\$000)

Premiums:		Benefits paid	256,748
Individual life	218,816	Change in reserves	-194,785
Individual annuities	31,592	Plyhldr divs & refunds	33,378
Acc & sickness individual	185	Commissions	69,181
Total premiums	250,593	Gen exp & taxes	131,770
Net investment income	125,315	Other expenses	760
Misc income	20,942		
Total	396,850	Total	297,052
Gain from operations before IT & extraordinary items			99,798
Provision for inc taxes			4,140
Net income (loss)			95,658

Why is this Best's® Rating Report important to you?

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

A Best's Rating is assigned after an extensive quantitative and qualitative valuation of a company's financial strength, operating performance and market profile.

Best's Ratings are assigned according to the following scale:

Secure Best's Ratings

A++ and A+	Superior
A and A-	Excellent
B++ and B+	Good

Vulnerable Best's Ratings

B and B-	Fair
C++ and C+	Marginal
C and C-	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Rating Suspended

For the latest **Best's Financial Strength Ratings** and *AMB Credit Reports* visit the A.M. Best web site at www.ambest.com. You may also obtain *AMB Credit Reports* by calling our Customer Service department at +1-908-439-2200, ext. 5742. To expedite your request, please provide the company's identification number (AMB #).