

# 2012 Annual Report Summary

Forethought Financial Group, Inc.

**FORE  
THOUGHT**<sup>®</sup>  
Thinking Ahead<sup>SM</sup>



## Letter from the Chairman, President and CEO

To: All FFG Shareholders and Stakeholders

2012 was another solid year for Forethought. GAAP book value per share increased to \$355 from \$325, an increase of more than 9%. Sales were \$1.5 billion up from \$978 million, and return on equity, a key profitability measure, expanded significantly to 8% from 6%. Virtually all the key measurable performance areas showed improvement.

More importantly, this was all accomplished at the same time that the company was able to complete a transformational acquisition of the entire new business, broker/dealer, product and other intellectual property of The Hartford's annuity platform. Once fully implemented in 2013, this acquisition will add over 100,000 financial advisors from numerous national and regional firms to Forethought's distribution network. It will also further diversify our product line in a manner that is less sensitive to interest rates through the launch of a retooled variable annuity product line that had been in development by The Hartford prior to purchase.

These compelling results from operations fully absorbed the incremental costs of the acquisition as well as continued historically low level interest rates during the year that saw the 10-year Treasury average below 1.8%. Very low interest rates typically pressure the results of life insurers as they make it difficult to invest policyholder funds at a meaningful spread over the benefits promised by policyholder contracts. It is a positive reflection of Forethought's legacy business and its new product development strategy that we were largely able to absorb this rate pressure.

Lastly, we continue to attract some of the finest people in the industry who recognize and value the opportunity that being a part of Forethought represents. We added close to 150 new associates in 2012, including those involved in the former Hartford annuity platform. Rob Arena, who led Hartford's annuity business, has joined as President of Forethought Annuity. He, along with several other key members of his team, signed on to the Forethought vision and opportunity in spite of significant alternatives at larger brand name companies. We continue to field one of the finest teams in the industry regardless of company size.

The overall environment continues to challenge traditional players for a host of reasons, including the aforementioned interest rate challenge. This has created a healthy pace of M&A largely defined by distressed books of business moving to nontraditional financial buyers. Importantly, in 2012, the first signs of strategic growth appetite returned as deeply discounted deals became more competitive. Public market multiples began to improve, and we saw a significant pickup in interest by distributors and investors for agile and committed companies who could execute and achieve scale. Forethought's unique combination of a clean and robust balance sheet, outstanding management team, diversified product line and greatly expanded distribution platform are very well positioned in this evolving environment.

We look forward to the opportunity to advance the Forethought mission and create value for all our stakeholders.

Thanks, again, for your continued cooperation and support.

**John A Graf**  
Chairman, President and CEO

## Executive Leadership

**John A. Graf**

Chairman, President and  
Chief Executive Officer

**Robert M. Arena**

Executive Vice President,  
Annuity Division

**Mary L. Cavanaugh**

Executive Vice President,  
General Counsel and  
Secretary

**David J. de Gorter**

Executive Vice President,  
Life Division

**David W. Entekin**

Executive Vice President,  
Corporate Development

**Paula G. Nelson**

Executive Vice President

**Michael A. Reardon**

Executive Vice President,  
Chief Financial Officer  
and Treasurer

**Eric D. Todd**

Executive Vice President,  
Chief Investment Officer

## Financial Highlights

Unaudited Combined Statutory Results  
(dollars in 000s)

### INCOME STATEMENT

Revenues	2012
Premium income	\$1,516,311
Net investment income and IMR amortization	320,076
Other	8,885
<b>Total revenues</b>	<b>\$1,845,272</b>
<b>Benefits and expenses</b>	
Policyholder benefits	\$1,331,026
Change in modco reserves on reinsurance assumed	194,875
Commissions	139,460
Insurance taxes, licenses and fees	7,939
General insurance expenses	64,278
Other	(1,408)
<b>Total benefits and expenses</b>	<b>\$1,736,170</b>
<b>Pretax operating income</b>	<b>\$109,102</b>
Income tax expense	(31,826)
<b>Net gain from operations</b>	<b>77,276</b>
<b>Net realized capital gains/(losses)</b>	<b>(13,013)</b>
<b>Net income</b>	<b>\$64,263</b>

### BALANCE SHEET

Assets	12/31/2012
Cash and invested assets	\$6,146,727
Premiums due and deferred	22,282
Accrued investment income	69,523
Current and deferred income taxes	19,428
Other assets	9,123
<b>Total assets</b>	<b>\$6,267,083</b>
<b>Liabilities</b>	
Policyholder benefits	\$5,653,629
Interest maintenance reserve	86,432
Asset valuation reserve	32,287
Other liabilities	22,369
<b>Total liabilities</b>	<b>\$5,794,717</b>
<b>Capital and surplus</b>	<b>472,366</b>
<b>Total liabilities and surplus</b>	<b>\$6,267,083</b>

### Key Metrics

	2012	2011	% Chg
Premium income	\$1,516,311	\$977,831	55%
Total assets	\$6,267,083	\$5,462,398	15%
Policyholder reserves	\$5,653,629	\$4,894,826	16%
Capital and surplus	\$472,366	\$424,132	11%

**Statutory Risk Based Capital** **514%**

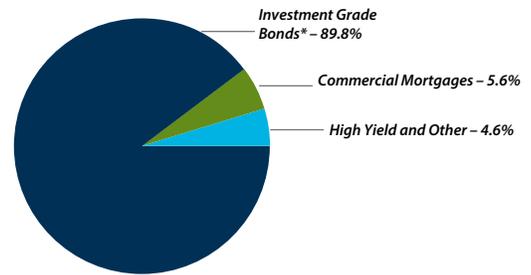
Data applies to Forethought Life Insurance Company, December 31, 2012

Not a bank deposit	Not FDIC/NCUA insured	Not insured by any federal government agency	No bank guarantee	May lose value
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## Investment Overview

As of 12/31/2012

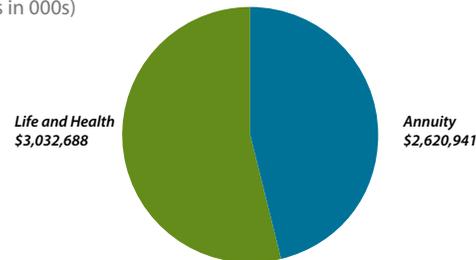


Forethought's investment strategy is predicated upon principal protection and providing stable, predictable income for our policyholders and shareholders. Therefore, Forethought maintains a diversified, high quality portfolio with approximately 89.8% invested in investment grade bonds, 5.6% in commercial mortgages, and the remaining 4.6% in high yield bonds, hedge funds, equities, real estate and policy loans.

\* As determined by the NAIC.

## Reserves by Product Type

As of 12/31/2012  
(dollars in 000s)



Forethought's reserves are well diversified by line of business, with over \$3.0 billion associated with life and health insurance obligations, and over \$2.6 billion supporting our line of deferred annuities.

### FINANCIAL STRENGTH RATINGS

#### A.M. BEST RATING

Forethought Life Insurance Company  
Fourth highest of sixteen ratings.



#### STANDARD & POOR'S RATING

Forethought Life Insurance Company  
Seventh highest of twenty-one ratings.



Information on the most current rating is available at [www.standardandpoors.com](http://www.standardandpoors.com) or from Standard & Poor's at (212) 438-2400. Ratings are not a guarantee of an insurer's financial strength nor a recommendation as to the insurer.

#### MOODY'S RATING

Forethought Life Insurance Company  
Seventh highest of twenty-one ratings.



#### WARD'S 50 RANKING

Forethought Life Insurance Company  
One of the Top 50 highest-performing life-health insurance companies in the prestigious 2012 Ward's 50® ranking. Ranking analyzes five-year financial performance of more than 800 US-based life-health insurance companies.

