

2006 Consolidated Financial Statements

The Independent Order
of Foresters

Year ended
December 31, 2006

MANAGEMENT STATEMENT ON RESPONSIBILITY FOR FINANCIAL REPORTING

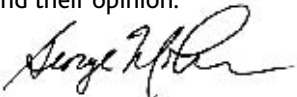
The consolidated financial statements have been prepared by management, who are responsible for their integrity, objectivity and reliability. Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada ("OSFI") have been applied and management has exercised its judgement 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.

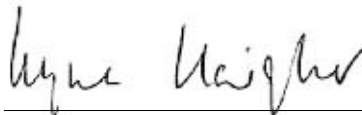
The Board of Directors, acting through the Inspection and Audit Committee, which comprises directors who are not officers or employees of Foresters, oversees management responsibility for the financial reporting and internal control system.

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 policy liabilities are in accordance with accepted actuarial practice and requirements. The Appointed Actuary is required to provide an opinion regarding the appropriateness of policy liabilities at the balance sheet date to meet all policyholder obligations. Examination of supporting data for accuracy and completeness and analysis of assets for their ability to support the amount of policy liabilities are important elements of the work required to form this 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 adverse economic conditions using the relevant Standards of Practice of the Canadian Institute of Actuaries. In carrying out her work the Appointed Actuary makes use of the work of the internal audit department and KPMG LLP Chartered Accountants ("Auditors"). The Actuary's report outlines the scope of the valuation and the Actuary's opinion.

Foresters engages Auditors to express an opinion on the financial statements. The responsibility of these Auditors 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 her report on the policy liabilities. The Auditor's report outlines the scope of their audit and their opinion.



George Mohacsi
Chief Executive Officer



Lynn Haight, F.C.A.
Chief Operating Officer & Chief Financial Officer

Toronto, Canada
February 12, 2007


AUDITORS' REPORT

To the Board of Directors of The Independent Order of Foresters

We have audited the consolidated balance sheets of The Independent Order of Foresters ("Foresters") and the separate statements of segregated funds' net assets as at December 31, 2006 and 2005 and the consolidated statements of income, surplus, cash flows and changes in segregated funds for the years then ended. These financial statements are the responsibility of Foresters management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Foresters and its segregated funds as at December 31, 2006 and 2005 and the results of its operations, cash flows and the changes in the net assets of its segregated funds for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the "K" and ends under the "P", extending across the width of the signature.

Chartered Accountants

Toronto, Canada

February 12, 2007

APPOINTED ACTUARY'S REPORT

The Board of Directors, The Independent Order of Foresters

I have valued the policy liabilities in the consolidated balance sheets of The Independent Order of Foresters as at December 31, 2006 and, except as noted in the following paragraph, their change in the consolidated statements 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 March 1, 2006 and have relied upon the previous Appointed Actuary, Paul Winokur, for the valuation as of December 31, 2005.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.



Sharon Giffen

Fellow, Canadian Institute of Actuaries

Toronto, Canada

February 12, 2007

THE INDEPENDENT ORDER OF FORESTERS

Consolidated Balance Sheets

As at December 31 (In thousands of Canadian dollars)

	2006	2005
Assets		
Investments (note 3):		
Cash and short-term securities	\$ 78,412	\$ 121,067
Bonds and other fixed-term securities	4,013,982	3,788,180
Mortgages	49,809	60,947
Common shares	1,280,746	1,055,915
Real estate	16,802	16,776
Loans to policyholders	196,511	196,268
Other invested assets	20,503	16,327
	<u>5,656,765</u>	<u>5,255,480</u>
Other assets:		
Interest due and accrued	50,770	46,108
Other assets	49,552	86,048
	<u>100,322</u>	<u>132,156</u>
Total assets	\$ 5,757,087	\$ 5,387,636

(See accompanying notes)

THE INDEPENDENT ORDER OF FORESTERS

Consolidated Balance Sheets

As at December 31 (In thousands of Canadian dollars)

	2006	2005
Liabilities and Surplus		
Liabilities:		
Policy liabilities (note 6):		
Policy benefits under insurance and fraternal certificates	\$ 3,154,932	\$ 2,907,116
Policy benefits under annuity contracts	705,383	705,115
	<u>3,860,315</u>	<u>3,612,231</u>
Other insurance certificate and contract liabilities:		
Benefits payable and provision for unreported claims	39,790	24,126
Policyholders' funds on deposit	57,319	62,264
	<u>97,109</u>	<u>86,390</u>
Other liabilities	66,367	63,078
Deferred net gains realized on disposal of investments (note 3)	536,953	470,109
	<u>4,560,744</u>	<u>4,231,808</u>
Total liabilities		
Surplus:		
Surplus account	1,166,856	1,133,623
Currency translation account	29,487	22,205
	<u>1,196,343</u>	<u>1,155,828</u>
Total surplus		
Total liabilities and surplus	\$ 5,757,087	\$ 5,387,636

Contingent liabilities (note 12)
Subsequent Event (note 14)

(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)

	2006	2005
Revenue:		
Premiums:		
Insurance	\$ 328,287	\$ 256,342
Annuities	148,316	79,804
Net investment income (note 3)	380,833	377,574
Other income	20,391	25,262
	<u>877,827</u>	<u>738,982</u>
Policy benefits and expenses:		
Policy benefits	420,076	336,404
Change in policy liabilities (note 6)	151,921	73,010
Dividends to members	41,753	43,066
Agent compensation	56,551	50,971
Operating expenses	149,064	151,872
Community investment	17,199	20,291
	<u>836,564</u>	<u>675,614</u>
Income before income taxes	41,263	63,368
Income taxes (note 7)		
Current	6,895	(2,140)
Future	1,135	(289)
	<u>8,030</u>	<u>(2,429)</u>
Net income	\$ 33,233	\$ 65,797

(See accompanying notes)

THE INDEPENDENT ORDER OF FORESTERS

Consolidated Statements of Surplus

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

	Surplus	Currency translation account	Total
Balance, December 31, 2004	\$ 1,067,826	54,779	1,122,605
Net income	65,797	-	65,797
Currency translation adjustment	-	(32,574)	(32,574)
Balance, December 31, 2005	1,133,623	22,205	1,155,828
Net income	33,233	-	33,233
Currency translation adjustment	-	7,282	7,282
Balance, December 31, 2006	\$ 1,166,856	\$ 29,487	\$ 1,196,343

(See accompanying notes)

THE INDEPENDENT ORDER OF FORESTERS

Consolidated Statements of Cash Flows

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

	2006	2005
Cash flows from operating activities:		
Net income	\$ 33,233	\$ 65,797
Items not affecting cash:		
Depreciation	1,254	1,903
Increase in policy liabilities	151,923	73,010
Amortization of deferred net investment gains	(134,332)	(130,597)
Decrease in allowance for impaired loans	-	(2,423)
Future income taxes	1,135	(289)
Amortization of premium and discount on bonds	3,069	13,896
Net change in other assets and other liabilities	43,762	4,479
Decrease due to operating activities	<u>100,044</u>	<u>25,776</u>
Cash flows from investing activities:		
Investments sold or matured:		
Bonds and other fixed-term securities	2,371,710	1,921,960
Common shares	601,063	421,080
Mortgages	-	18,574
Real estate	11,122	20,388
Investments acquired:		
Bonds and other fixed-term securities	(2,516,129)	(1,960,630)
Common shares	(609,988)	(405,108)
Loans to policyholders (net)	1,243	1,901
Other invested assets (net)	(3,344)	(2,280)
Short-term securities (net)	989	19
Decrease due to investing activities	<u>(143,334)</u>	<u>15,904</u>
Foreign exchange gain (loss) on cash held in foreign currencies	<u>1,624</u>	<u>(5,609)</u>
Net increase (decrease) in cash and cash equivalents for the year	(41,666)	36,071
Cash and cash equivalents, beginning of year	<u>119,878</u>	<u>83,807</u>
Cash and cash equivalents, end of year	<u>78,212</u>	<u>119,878</u>
Represented by:		
Cash	19,630	29,895
Short-term securities, with original maturities of three months or less	<u>58,582</u>	<u>89,983</u>
	\$ 78,212	\$ 119,878

(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)

	2006	2005
Net assets, beginning of year	\$ 105,109	\$ 94,136
Additions during the year:		
Premiums from contractholders	11,214	9,370
Investment income	2,484	2,426
Net realized gains on sale of investments	6,621	2,811
Net change in unrealized gains on investments	4,078	11,043
	<u>24,397</u>	<u>25,650</u>
Deductions during the year:		
Withdrawals by contractholders	14,990	12,705
Management fees and other operating costs	2,096	1,972
	<u>17,086</u>	<u>14,677</u>
Net assets, end of year	\$ 112,420	\$ 105,109

(See accompanying notes)

Consolidated Statements of Segregated Funds' Net Assets

As at December 31 (In thousands of Canadian dollars)

	2006	2005
Equities	\$ 88,301	\$ 83,228
Bonds	19,136	16,229
Cash and short-term securities	4,625	5,370
Accrued investment income	535	364
Liabilities	(177)	(82)
	<u>\$ 112,420</u>	<u>\$ 105,109</u>

(See accompanying notes)

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

For the years ended December 31 (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 Canada, the United States and the United Kingdom. Its operations cover the development and marketing of individual life, investment and annuity products.

Foresters is subject to the Insurance Companies Act - Canada ("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 which are dependent on the type and amount of insurance policies 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 the statutory authorities in the United States and the United Kingdom, which may restrict its distribution of surplus.

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 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 policy liabilities which are discussed in note 6.

(a) Basis of consolidation:

These financial statements include the accounts of Foresters and its wholly owned subsidiaries Foresters Holdings (Europe) Ltd., Foresters Securities (Canada) Inc. Sylvan Agency (Canada) Inc. and Foresters Equity Services, Inc. See note 14.

(b) Investments:

Investments are accounted for on the following bases:

(i) Bonds and other fixed-term securities:

Bonds and other fixed-term securities are carried at amortized cost. The difference between the proceeds on the sale of a security and its amortized cost is considered to be an adjustment of future portfolio yield and is deferred on the balance sheet and amortized to income over the remaining term to maturity.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

1. Significant accounting policies (continued):

(ii) Common shares:

Common shares are carried at moving average market value whereby the carrying value is adjusted towards market value at 5% per quarter on a portfolio basis. Net realized gains and losses on the disposal of common shares are deferred and amortized to income at 5% per quarter on a declining balance basis.

(iii) Mortgages:

Mortgages are carried at amortized cost. The difference between the proceeds on sale and outstanding principal balance is deferred on the balance sheet and amortized to income over the remaining term of the loan sold.

(iv) 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% per quarter. Net realized gains and losses are deferred and amortized to income at 3% per quarter on a declining balance basis. Market values on each property are reviewed each year and external appraisals are carried out at least every three years by qualified appraisers. The market 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.

(v) Loans to policyholders:

Loans to policyholders are carried at their unpaid balance and are fully secured by the cash surrender value of the policies on which the respective loans are made.

(vi) Derivative financial instruments:

From time to time, with approval from the Board of Directors, Foresters uses various derivative financial instruments for managing its exposure to fluctuations in interest rates, foreign exchange rates and stock market indices. Foresters does not enter into these financial instruments for trading or speculative purposes.

The accounting policies for derivative financial instruments used for hedging correspond to those used for the underlying hedged position.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

1. Significant accounting policies (continued):

(c) Provisions for asset defaults:

(i) General:

Foresters makes specific provisions against assets where there has been other than a temporary decline in the underlying value of an asset. For fixed term securities these provisions are determined on individual securities and for shares and real estate they are determined on a portfolio basis. These provisions are deducted from the carrying value of the respective assets. Provisions are also made for anticipated future losses of principal and interest on invested assets and are included as a component of actuarial liabilities. These provisions are management's best estimate of probable credit-related losses existing in Foresters current and future portfolio of assets.

Foresters ceases to accrue interest on non-performing bonds, other fixed-term securities and mortgages which are 90 days or more in arrears, as well as those which are less than 90 days in arrears but are deemed by management to be impaired. Once invested assets are classified as non-performing, any accrued but uncollected interest is reversed.

(ii) Allowance for impaired assets:

When a loan 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 change 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 or credit for impaired assets.

Subsequent payments are recorded in interest income after any prior write-off has been recovered and if management has determined that a specific provision is not required; otherwise, they are recorded as a reduction in principal.

(d) Premium revenues and policy liabilities:

Gross premiums are generally 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.

Policy liabilities have been calculated using the Canadian Asset Liability Method ("CALM"). Policy 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 INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

1. Significant accounting policies (continued):

(e) Community investment:

Community Investment represents the contribution made by Foresters in the communities where the members live. These costs include donations to charities for children's causes, sponsorship for various fund raising programs, support for the volunteer branch system, scholarships and other benevolent activities.

(f) Income taxes:

Income taxes are accounted for by the asset and liability method, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss 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.

(g) Foreign currency translation:

The operations of Foresters in the United States and the United Kingdom 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. Gains and losses resulting from translating self-sustaining operations are accumulated in the currency translation account, which is included in surplus.

(h) Segregated fund investments:

Certain policy contracts allow the policyholder to invest in segregated investment funds managed by Foresters for the benefit of these policyholders. The assets of these funds are carried at their year-end market values. The income for these funds includes all realized and unrealized gains and losses, net of related expenses and is included in the value of the fund. Substantially all risks and rewards of ownership accrue to these policyholders; consequently, assets held in segregated fund accounts are not consolidated with the assets of Foresters.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

1. Significant accounting policies (continued):

(i) 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 gain (loss) over 10% 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) is 10.6 years (2005 – 10.1 years). The average remaining service period of the active employees covered by the other retirement benefit plans (on a weighted average basis) is 11.6 years (2005 – 12.0 years).
- Foresters adopted CICA 3461 on a prospective basis as of January 1, 2000. The transitional asset (obligation) 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, 2006 is approximately 13.6 years for the pension plans and 8.2 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.

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Notes to Consolidated Financial Statements

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

2. Future Accounting Change

Effective January 1, 2007, Foresters will implement the following new Canadian Institute of Chartered Accountants ("CICA") accounting standards: Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income. These changes will impact Foresters consolidated financial statements as follows:

All financial assets will be classified as held for trading, available for sale, held to maturity, or loans and receivables and recorded on the consolidated balance sheet. The standards require that all financial assets, including derivatives, be measured at fair value with the exception of loans, receivables, and investments designated as held to maturity, which should be measured at amortized cost.

Changes in the fair value of held for trading assets will be reported in the consolidated income statement of income, while changes in the fair value of available for sale assets will be reported in other comprehensive income until realized, when they will be recorded in the consolidated statement of income.

All financial liabilities, other than policy liabilities, will be measured at fair value when they are classified as held for trading. Other financial liabilities will be measured at cost.

The resulting changes in the carrying values of assets will result in substantially offsetting changes in the carrying value of policy liabilities.

Accumulated other comprehensive income will be included on the consolidated balance sheet as a separate component of surplus and will include net unrealized gains and losses on available for sale assets, net unrealized gains and losses on derivative instruments designated within an effective cash flow hedge and minimum pension liability adjustments.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

3. Investments:

(a) The carrying values and fair values of investments are as follows:

	2006		2005	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Cash and short-term securities	78,412	78,412	121,067	121,067
Bonds and other fixed-term securities	4,013,982	4,096,677	3,788,180	3,923,073
Mortgages	49,809	52,300	60,947	63,994
Common shares	1,280,746	1,484,421	1,055,915	1,223,382
Real estate	16,802	17,017	16,776	17,019
Loans to policyholders	196,511	196,511	196,268	196,268
Other invested assets	20,503	24,564	16,327	19,740
	5,656,765	5,949,902	5,255,480	5,564,543

Fair values have been determined on the basis described in note 11 and are considered to approximate market values.

As part of Foresters asset liability risk management, liabilities are matched with investments of the same currency. Interest, dividends and receipt of principal of U.S., Canadian and U.K. investments are in their respective currencies.

Details of significant terms and conditions, exposures to interest rate and credit risks on investments are as follows:

(i) Cash and short-term securities:

Short-term securities comprise notes and commercial paper with a maximum maturity date of January 11, 2007 and effective interest rates of 4.25% to 5.36% (2005 – 1.25% to 4.41%). Cash and short-term securities are comprised of:

	2006 \$	2005 \$
Cash	19,630	29,895
Short-term securities with an original maturity of 90 days or less	58,582	89,983
	78,212	119,878
Short-term securities with an original maturity of greater than 90 days	200	1,189
	78,412	121,067

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements
For the years ended December 31 (In thousands of Canadian dollars)

3. Investments (continued):

(ii) Bonds and other fixed-term securities:

	Average effective yield	
	2006	2005
Corporate	5.16%	4.91%
Government	5.29%	5.45%
Other	8.90%	8.90%

Investment concentration in any one investee or related group of investees, except for Canadian, United Kingdom and United States government and government agencies and guarantees, is limited to US-\$75,000 of the US bond portfolio, CDN-\$20,000 of the Canadian bond portfolio and £9,000 of the United Kingdom bond portfolio. The US and Canadian dollar limits are for AAA rated bonds, and are further constrained for lower rated bonds.

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

	Carrying amount	
	2006 \$	2005 \$
Term to maturity		
<u>Corporate:</u>		
Due in one year or less	73,960	92,867
One through five years	806,754	787,358
After five years	1,417,750	1,301,804
	<u>2,298,464</u>	<u>2,182,029</u>
<u>Government:</u>		
Due in one year or less	4,275	51,568
One through five years	154,852	118,880
After five years	1,549,378	1,428,725
	<u>1,708,505</u>	<u>1,599,173</u>
<u>Other:</u>		
One through five years	7,013	6,978
	<u>4,013,982</u>	<u>3,788,180</u>

The carrying amount 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.

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements
For the years ended December 31 (In thousands of Canadian dollars)

3. Investments (continued):

(iii) Mortgages:

	2006			2005		
	Carrying amount	Average effective rate	Average maturity (years)	Carrying amount	Average effective rate	Average maturity (years)
	\$			\$		
Commercial	47,213	7.2%	3.1	56,991	7.2%	3.9
Multiple residential	2,596	8.1%	7.0	3,956	8.1%	6.3
	49,809	7.2%	3.3	60,947	7.2%	4.1

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 25% of the fixed income portfolio of each of the US and Canada. The UK limits its mortgage exposure to 1% of its total assets.

(iv) Common shares:

Common shares, with carrying values of \$1,280,746 (2005 - \$1,055,915), have no fixed maturity dates and are generally not directly exposed to interest rate risk.

Foresters limits its investment concentration of common shares in any one investee or related group of investees, to the greater of 1.5 times the issuer's weight on the S&P/TSX composite index or 7% of the Canadian equity portfolio to the maximum of 10% of the portfolio. The US large capitalization portfolio is managed with reference to the S&P 500 index. The US mid capitalization portfolio, REITs and international portfolios have a single issue maximum of 10% of its respective portfolio, while in the UK the maximum in any one company is 5% of its total assets. In addition, total investment in equities, REITs and real estate is limited to 25% of total Foresters assets.

(v) Real estate:

Foresters limits the total of its investment in equities, real estate and REITs to 25% of total Foresters assets. Investment in real estate is limited to 15% of total Foresters assets.

(vi) Loans to policyholders:

Loans to policyholders have effective interest rates of 5% to 8% (2005 - 5% to 8%), with an average effective rate of 5.4% (2005 - 5.4%).

THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements
For the years ended December 31 (In thousands of Canadian dollars)

3. Investments (continued):

(b) The balance of deferred net gains realized on disposal of investments comprises the following:

	2006	2005
	\$	\$
Bonds and other fixed-term securities	198,243	214,540
Common shares	308,268	220,990
Real estate	28,995	32,919
Mortgages	1,447	1,660
	536,953	470,109

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

	2006	2005
	\$	\$
Bonds and other fixed-term securities	220,546	230,177
Common shares	142,960	125,953
Real estate	3,876	3,979
Mortgages	4,161	5,880
Cash and short-term securities	4,824	3,844
Policy loans	10,167	10,832
Other	420	364
	386,954	381,029
Increase (decrease) in allowance for impaired loans	-	(2,423)
Gross investment income	386,954	383,452
Less investment expense	6,121	5,878
	380,833	377,574

Cash received on account of investment income, excluding the impact of principal transactions, in 2006 was \$249,570 (2005 - \$258,450).

(d) Included in net investment income is the amortization of deferred realized gains for all invested assets and of unrealized gains on common shares and real estate as follows:

	2006	2005
	\$	\$
Bonds and other fixed-term securities	23,398	35,602
Common shares	106,866	90,142
Real estate	3,700	4,462
Mortgages	368	391
	134,332	130,597

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Notes to Consolidated Financial Statements

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

4. Impaired loans:

Impairment of a loan is recognized by full or partial write-off of the recorded investment in the loan, establishment of an allowance for impaired assets or partial write-off supplemented by an allowance. Impaired loans are assessed on an individual loan basis.

Events and conditions considered in determining the charge to income during the year include the value of the security underlying the loan, geographic location, industry classification and financial stability of the borrower, repayment history and an assessment of the impact of current economic conditions.

At December 31, 2006 and 2005 no allowances were required for individual loans or groups of loans.

5. Derivative financial instruments:

Foresters has entered into foreign exchange forward contracts to limit the exposure to foreign exchange rate fluctuations between the Canadian and U.S. dollars. The calculation of policy liabilities includes a provision for future policy 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 these expenses and are reflected in the determination of policy liabilities.

In 2006, the net gain on the settlement of these contracts amounted to \$9,796 and was included in general expenses on the consolidated statement of income.

At December 31, 2006, the fair value of the foreign exchange forward contracts was \$77,934 (2005 - \$82,729) and the notional amount of these contracts is \$488,039 (2005 - \$455,543). These contracts call for an exchange of cash every three months from the present to December 2031, unless extended. The forward exchange rates contracted range from 0.9987 to 1.6928. The counterparties to these contracts are two Canadian financial institutions with credit ratings of AA.

Foresters only enters into derivative financial contracts with approval from the Board of Directors at which time 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. As well, derivative transactions are subject to authorization limits for specific personnel. Adherence to these policies is monitored regularly and reported to the Investment Committee annually.

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Notes to Consolidated Financial Statements

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

6. Policy liabilities:

(a) Nature of policy liabilities:

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

Policy 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.

The process of determining policy liabilities necessarily involves risks that the actual results will deviate from the best estimates made. These risks vary in proportion to the length of the estimation period and the potential volatility of each component comprising the liabilities. To recognize uncertainty in establishing these best estimates and to allow for possible deterioration in experience, the Actuary is required to include a margin in each assumption, which has the effect of increasing the policy liabilities. A range of allowable margins is prescribed by the CIA. In general, in setting these provisions for adverse deviation, the Actuary has aimed for a reasonable degree of conservatism. For all products, a multiple scenario valuation is conducted by the Actuary using a cash flow valuation method in order to determine the provision for adverse deviations appropriate for interest rate risk. With the passage of time, and resulting reduction in estimation risk, these provisions will be included in future income to the extent that they are not required to cover adverse experience. If estimates of future conditions change throughout the life of a policy, the effect of those changes is recognized in income immediately.

(b) Policy liabilities and supporting assets:

Foresters segments its business, taking into account the different liability profiles of its products and in the case of certain United Kingdom business restrictions on the distribution of its surplus. Based on these profiles, Foresters has invested in fixed income securities, equities, mortgages and real estate which have characteristics appropriate for the related policy 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 (note5). Policy liabilities are matched with assets denominated in the same currency in order to avoid unintended exposure to foreign currency fluctuations.

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

6. Policy liabilities (continued):

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

	2006				2005			
	Insurance and Fraternal \$	Annuities \$	Corporate \$	Total \$	Insurance and Fraternal \$	Annuities \$	Corporate \$	Total \$
Policy liabilities	3,154,932	705,383	-	3,860,315	2,907,116	705,115	-	3,612,231
Other liabilities	55,062	62,265	46,149	163,476	64,373	61,703	23,392	149,468
Deferred gains	308,548	29,389	199,016	536,953	268,567	39,968	161,574	470,109
Surplus	-	-	1,196,343	1,196,343	-	-	1,155,828	1,155,828
	3,518,542	797,037	1,441,508	5,757,087	3,240,056	806,786	1,340,794	5,387,636
Assets backing policy liabilities								
Bonds and other fixed-term securities	2,491,604	642,571	-	3,134,175	2,368,606	653,598	-	3,022,204
Common shares	436,103	28,836	-	464,939	299,506	10,537	-	310,043
Mortgages	23,572	26,237	-	49,809	30,299	30,648	-	60,947
Cash and short-term securities	7,142	7,739	-	14,881	12,295	10,332	-	22,627
Real Estate	-	-	-	-	142	-	-	142
Policy loans	196,511	-	-	196,511	196,268	-	-	196,268
	3,154,932	705,383	-	3,860,315	2,907,116	705,115	-	3,612,231
Other assets								
Bonds and other fixed-term securities	218,446	72,311	589,050	879,807	175,059	76,185	514,732	765,976
Common shares	121,829	-	693,978	815,807	123,023	-	622,849	745,872
Mortgages	-	-	-	-	-	-	-	-
Cash and short-term securities	10,496	-	53,035	63,531	16,830	7,505	74,105	98,440
Real estate	-	-	16,802	16,802	-	-	16,634	16,634
Other	12,839	19,343	88,643	120,825	18,028	17,981	112,474	148,483
	3,518,542	797,037	1,441,508	5,757,087	3,240,056	806,786	1,340,794	5,387,636

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Notes to Consolidated Financial Statements

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

6. Policy liabilities (continued):

Assets and liabilities, by geographic location are comprised as follows:

	2006				2005			
	Canada \$	United Kingdom \$	United States \$	Total \$	Canada \$	United Kingdom \$	United States \$	Total \$
Policy liabilities	495,414	781,512	2,583,389	3,860,315	498,723	562,886	2,550,622	3,612,231
Other liabilities	25,937	20,936	116,603	163,476	32,102	20,911	96,455	149,468
Deferred gains	55,582	140,502	340,869	536,953	52,260	100,461	317,388	470,109
Surplus	94,946	96,482	1,004,915	1,196,343	90,162	70,744	994,922	1,155,828
	671,879	1,039,432	4,045,776	5,757,087	673,247	755,002	3,959,387	5,387,636
Assets backing policy liabilities								
Bonds and other fixed-term securities	427,587	400,222	2,306,366	3,134,175	436,683	315,690	2,269,831	3,022,204
Common shares	35,652	371,576	57,711	464,939	22,329	235,534	52,180	310,043
Mortgages	-	-	49,809	49,809	-	-	60,947	60,947
Cash and short-term securities	7,142	-	7,739	14,881	14,405	3,217	5,005	22,627
Real Estate	-	-	-	-	142	-	-	142
Policy loans	25,033	9,714	161,764	196,511	25,164	8,445	162,659	196,268
	495,414	781,512	2,583,389	3,860,315	498,723	562,886	2,550,622	3,612,231
Other assets								
Bonds and other fixed-term securities	81,741	169,333	628,733	879,807	70,236	112,166	583,574	765,976
Common shares	39,005	32,715	744,087	815,807	41,225	25,792	678,855	745,872
Mortgages	-	-	-	-	-	-	-	-
Cash and short-term securities	13,293	17,540	32,698	63,531	13,612	16,457	68,371	98,440
Real estate	16,802	-	-	16,802	16,634	-	-	16,634
Other	25,624	38,332	56,869	120,825	32,817	37,701	77,965	148,483
	671,879	1,039,432	4,045,776	5,757,087	673,247	755,002	3,959,387	5,387,636

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

6. Policy liabilities (continued):

Provisions made for anticipated future losses of principal and interest on investments and included as a component of policy liabilities are as follows:

	2006	2005
	\$	\$
Balance, beginning of year *	22,835	27,911
Net release of provision **	(10,452)	(4,524)
Impact of change in foreign exchange rates	(176)	(552)
Balance, end of year *	12,207	22,835

* Provisions are net of losses passed-through via credited interest rates and dividends

** Modeling refinements on participating plans reduced provision by approximately \$10 million in 2006

(c) Policy assumptions:

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

Policy 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.

Policy lapse rates:

Policyholders may allow their policies to lapse by choosing to discontinue payment of their premiums. On some of the life insurance products, a certain percentage of policies are expected to lapse prior to maturity. If policy lapse rates are lower than expected, aggregate claims will be increased and profit will be reduced from anticipated levels. This type of policy is described as being lapse-supported. On other blocks of business, if policy lapse rates are higher than originally anticipated, the per unit cost of maintaining policies 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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6. Policy liabilities (continued):

Investment income:

The computation of policy liabilities takes into account projected net investment income on assets supporting policy 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 from asset defaults. 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).

Policy maintenance expenses:

Amounts are included in policy liabilities to provide for the costs of administering policies in force and include the costs of premium collection, adjudication and processing of claims, periodic actuarial calculations, preparation and mailing of policy 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 policy maintenance expenses are based both on Foresters experience and management's plans for the future.

The valuation is somewhat sensitive to this assumption; a 1% ongoing increase in the future maintenance costs assumed would increase the policy liabilities by approximately \$5,000 (2005-\$5,000).

Policyholder dividends:

Policy liabilities include the present value of estimated amounts of future policyholder dividends based on current dividend scales, expected future income attributable to participating policies and reasonable policyholder expectations.

(d) Sensitivity to assumption changes:

The assumptions that are most susceptible to change in the near term are future investment yields and policy maintenance expenses (described in note 6(c) above). Major factors that could impact assumed future interest rate assumptions are changes in the yield available on new investments and changes in future returns expected on the stock market from a change in outlook for capital appreciation.

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

6. Policy liabilities (continued):

Interest rate and market risk:

For most of the interest sensitive products, annuities and universal life policies, a decrease in interest rates result in decreased profitability. A sustained 1% decline in the general level of interest rates would result in an increase in policy liabilities on these products of approximately \$33,000 (2005 - \$15,000). The increase from 2005 results from an improved model which more fully reflects the value of minimum credited rate guarantees on our interest sensitive products.

Many of the annuity and universal life policies have minimum credited interest rate guarantees. These vary by product, ranging from 1.5% to 4%. In the current low interest rate environment, these products are sensitive to a sustained decline in interest rates. Low lapse rates also accentuate the impact of these guarantees in such an environment.

The dividend paying traditional life insurance products are negatively impacted by decreasing interest rates over the long term, since it may not be possible to fully pass through the impact of the reduced asset yields to the participating policyholders. However, an immediate decrease in the general level of interest rates would be slow to impact the yield on the entire asset portfolio, since only a small proportion of the assets are of a short duration. The dividend scale could be decreased to offset the impact of any long-term rate decline. With consideration for reasonable policyholder expectations, the negative impact would be the time lag between recognizing the reduced asset yields and adjusting the dividend scale.

It is more difficult to fully reflect the impact of a sharp setback in the market on dividends credited on policies and particularly on interest rates credited on interest sensitive products. Under Foresters investment policies, the impact on the financial statements of a sustained 1% reduction in interest rates combined with a sustained 10% reduction in the stock market is targeted to have an impact on surplus of not greater than 5%, or approximately \$58,000 (2005 – 5% or \$58,000). Currently, Foresters result on this test is an adverse impact of approximately \$49,000 (2005 - \$26,000). The increase from 2005 results from an improved model which more fully reflects the value of minimum credited rate guarantees on our interest sensitive products.

Both sensitivity results above assume that a sustained decline in the general level of inflation – and therefore expense inflation – occurs in conjunction with the sustained decline in interest rates. Such a decrease in expense inflation offsets some of the effect of the lower interest rates.

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Notes to Consolidated Financial Statements

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

6. Policy liabilities (continued):

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

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

	2006 \$	2005 \$
Policy liabilities, beginning of year	3,612,231	3,708,387
New business	219,448	101,100
Renewals, maturity, claims and surrenders	(77,844)	(11,119)
Refinement of assumptions (see 1 and 2 below)	2,765	(12,700)
Refinement of methods and models (see 3 below)	7,552	(4,271)
	151,921	73,010
Impact of change in foreign exchange rates	96,163	(169,166)
Policy liabilities, end of year	3,860,315	3,612,231

An impact analysis of the major actuarial factors in 2006 and 2005 is as follows:

1. Changes in policy liabilities from assumption refinements in 2006 included: increases related to unfavorable mortality experience and foreign exchange rates; and decreases related to favorable interest rates and 2006 dividend scale changes; a portion of those decreases on traditional life were offset through a provision to benefit members as part of the 2008 dividend review.
2. Changes in policy liabilities from assumption refinements in 2005 included: increases related to currency fluctuations, higher unit costs of administration, lower lapses on fraternal business and higher data quality provisions; and decreases related to fraternal benefit utilization and to higher yields for U.S. annuities.
3. Changes in policy liabilities from refinement of methods and models in 2006 is comprised of: increases related to modeling improvements on universal life; and decreases related to modeling improvements on traditional life. Changes in policy liabilities from refinement of methods and models in 2005 is comprised of: decreases due to a more complete implementation of Canadian GAAP for UK unit linked business and offsetting refinements on other lines of business.

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

7. Income taxes:

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

	2006 \$	2005 \$
Canadian:		
Current income taxes	7,260	3,678
Income tax recovery	(5,688)	(9,827)
	<u>1,572</u>	<u>(6,149)</u>
United Kingdom:		
Current income taxes	5,323	4,009
Future income taxes	1,135	(289)
	<u>6,458</u>	<u>3,720</u>
Total	<u>8,030</u>	<u>(2,429)</u>

The Canadian income tax recovery amount of \$5,688 (2005 - \$9,827) results from the favorable outcomes of tax disputes with the Ontario Ministry of Finance and the Alberta Ministry of Finance for the years 1992 to 1998 as well as a refund from Canada Revenue Agency for the 2001 taxation year. In addition, refund interest totaling \$1,445 (2005 - \$3,523) has been recorded in other income.

(b) The components of future income tax balances are as follows:

	2006 \$	2005 \$
Future income tax assets		
Policy liabilities	52,233	63,522
Deferred net gains	35,354	28,348
Tax loss carryforwards	7,867	4,568
Other	720	465
Less valuation allowance	(54,425)	(64,159)
Future income tax assets	<u>41,749</u>	<u>32,744</u>
Future income tax liabilities arising from investments	(14,862)	(6,978)
Net future income tax asset	<u>26,887</u>	<u>25,766</u>

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Notes to Consolidated Financial Statements

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

7. Income taxes (continued):

(c) Cash taxes paid in 2006 were \$12,043 (2005 - \$4,402).

(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:

	2006	2005
Combined federal and provincial statutory income tax rate for the current year	% 34.97	% 35.90
Increase (decrease) in rate due to:		
Lower net average tax rate of foreign jurisdictions and Canadian fraternal operations *	(19.28)	(29.76)
Capital taxes	4.82	3.48
Recovery of Canadian taxes	(13.77)	(16.12)
Taxes paid on behalf of prior years	8.19	-
Other	4.53	2.52
Effective income tax rate	19.46	(3.98)

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

8. 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 most of its employees in Canada, the United States and the United Kingdom. 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 Canada and the U.S.

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 assumption.

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Notes to Consolidated Financial Statements

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

8. 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, 2003 for the North American plans and March 2005 for the UK. The effective date of the next required valuation is December 31, 2006 for the North American plans and March 2008 for the U.K.

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:

	2006		2005	
	Pension benefits \$	Other benefits \$	Pension benefits \$	Other benefits \$
<u>Reconciliation of accrued benefit obligation:</u>				
Accrued benefit obligation, beginning of year	160,796	22,818	144,939	27,244
Service cost	6,844	946	5,877	(856)
Employee contributions	15	-	47	-
Interest cost	8,227	939	8,000	1,158
Benefits paid	(7,622)	(961)	(6,720)	(1,164)
Actuarial (gains)/losses	(5,079)	(1,877)	12,146	(2,939)
Plan amendments and curtailments	-	-	(598)	-
Impact of change in foreign exchange rate	2,263	16	(2,895)	(625)
Accrued benefit obligation, end of year	165,444	21,881	160,796	22,818
<u>Reconciliation of fair value of plan assets:</u>				
Fair value of plan assets, beginning of year	213,402	-	193,590	-
Return on plan assets	20,483	-	28,774	-
Employer contributions	974	-	710	-
Employee contributions	15	-	47	-
Benefits paid	(7,622)	-	(6,720)	-
Impact of change in foreign exchange rate	2,237	-	(2,999)	-
Fair value of plan assets, end of year	229,489	-	213,402	-
<u>Funded status:</u>				
Funded status – plan surplus (deficit)	64,045	(21,881)	52,606	(22,818)
Unamortized net actuarial gains/(losses)	(19,584)	(5,934)	(7,473)	(4,208)
Unamortized past service costs	-	(104)	-	(213)
Unamortized transitional obligation	(33,047)	545	(35,296)	595
Accrued benefit asset (liability)	11,414	(27,374)	9,837	(26,644)

The net accrued benefit liability of \$15,960 (2005 – \$16,807) has been recorded on the consolidated balance sheets in other liabilities.

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8. Employee benefit plans (continued):

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

	2006		2005	
	Pension benefits \$	Other benefits \$	Pension benefits \$	Other benefits \$
Accrued benefit obligation	(29,986)	(21,881)	(27,377)	(22,818)
Fair value of plan assets	17,134	-	15,680	-
Funded status – plan deficit	(12,852)	(21,881)	(11,697)	(22,818)

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

	2006		2005	
	Pension Benefits \$	Other Benefits \$	Pension Benefits \$	Other Benefits \$
Defined benefit	974	961	710	1,165
Defined contribution	1,365	-	1,379	-
Total	2,339	961	2,089	1,165

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

	2006		2005	
	Pension Benefits %	Other Benefits %	Pension Benefits %	Other Benefits %
Common shares	46	-	43	-
Fixed income securities	54	-	57	-
Total	100	-	100	-

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8. Employee benefit plans (continued):

Foresters net defined benefit plan expense is as follows:

	2006		2005	
	Pension benefits \$	Other benefits \$	Pension benefits \$	Other benefits \$
Actual costs arising in the period				
Service cost (employer portion)	6,844	946	5,877	(856)
Interest cost	8,227	939	8,000	1,158
Actual return on plan assets	(20,483)		(28,774)	-
Actuarial (gains) losses	(5,079)	(1,877)	12,146	(2,939)
Plan amendments	-	-	-	-
Curtailment (gains) losses	-	-	-	-
Costs arising in the period before adjustments to recognize the long-term nature of employee future benefit costs	(10,491)	8	(2,751)	(2,637)
Difference between expected return and actual return on plan assets for the year	7,069		16,444	-
Difference between actuarial (gains) losses recognized for the year and actual actuarial (gains) losses on accrued benefit obligation for the year	5,269	1,673	(12,119)	2,890
Difference between amortization of past service costs for the year and actual plan amendments for the year	-	(107)	-	(114)
Amortization of net transitional obligation:	(2,275)	50	(2,292)	50
Net benefit plan (income) expense	(428)	1,624	(718)	189

The defined contribution plan expense for 2006 was \$1,365 (2005 - \$1,379).

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

8. Employee benefit plans (continued):

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

	2006		2005	
	Pension benefits	Other benefits	Pension benefits	Other Benefits
Assumptions used to calculate benefit expense:				
Discount rate	5.0%	5.5%	5.5%	5.5%
Expected long-term rate of return on plan	6.4%	-	6.5%	-
Rate of compensation increase	4.0%	-	4.0%	-
Assumptions used to calculate benefit obligations:				
Discount rate	5.2%	5.7%	5.0%	5.5%
Rate of compensation increase	3.7%	-	4.0%	-

The healthcare cost inflation assumption for Canadian benefits is 5.9% per year, (2005 – 6.4% per year), decreasing to 4.8% in 2010 and thereafter. The post medicare inflation assumption for the United States benefits is 10.3% for 2006 (2005 – 11.1%) decreasing to 5.0% by 2012 and thereafter.

A 1% change in the assumed healthcare trend rate would have the following effects:

	1% Increase	1% Decrease
Effect on service cost plus interest cost for 2006	130	(109)
Effect on accrued benefit obligation as at December 31, 2006	1,869	(1,574)

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Notes to Consolidated Financial Statements

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

9. Segmented information:

Foresters operates in three geographic segments and the results from operations and asset performance in each of the three segments are outlined below. The insurance and fraternal operations of these segments involve the development and marketing of individual life, investment, annuity and accident and health products. The basis of accounting used in the presentation of these segments is consistent with that described in the summary of significant accounting policies (see note 1).

	2006				2005			
	Canada	United Kingdom	United States	Total	Canada	United Kingdom	United States	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Premiums	33,782	189,298	253,523	476,603	37,292	97,340	201,514	336,146
Net Investment income (1)	29,999	36,862	179,640	246,501	30,099	33,236	183,642	246,977
Amortization of deferred realized and unrealized gains	14,426	37,071	82,835	134,332	14,867	32,680	83,050	130,597
Change in policy liabilities	(3,309)	128,458	26,772	151,921	(4,269)	37,155	40,124	73,010
Income before income taxes	5,106	19,775	16,382	41,263	12,940	19,835	30,593	63,368

(1) Excludes amortization of deferred and unrealized gains

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10. 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% (105% 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 Canada and the United States.

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, 2006, securities with an estimated market value of \$425,560 (2005 - \$346,139) were on loan. Foresters has received collateral with an estimated market value of \$436,031 (2005 - \$352,001).

11. Fair value disclosure:

The following methods and assumptions were used to estimate the fair value of assets and liabilities:

(a) Bonds and other fixed-term securities (note 3):

The fair value of bonds and other fixed-term securities is estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers, or pricing services less estimated broker fees, for those or similar investments.

(b) Mortgages (note 3.):

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.

(c) Common shares (note 3.):

The fair value of shares is based on quoted market prices. Where a quoted market price is not readily available, fair values are estimated on the basis of dealer quotes or recent transactions of similar investments.

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11. Fair value disclosure (continued):

(d) Real estate (note 3.):

The fair value of real estate properties is based on recent external appraisals obtained on a three-year cycle. The appraised value is adjusted, if necessary, each year to reflect current market conditions.

(e) Provision for future policy benefits (note 6.):

It is not practical to determine the fair value of the provision for future policy benefits with sufficient reliability.

(f) Derivative financial instruments

See note 5

(g) Other:

For all other Foresters financial instruments the carrying amounts approximate fair value due to the short-term maturity or specific terms of these financial instruments.

12. 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 as policy liabilities and Foresters does not believe that it will incur any significant additional loss or expense in connection with such actions.

13. Comparative figures:

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in 2006.

14. Subsequent event:

Foresters Financial Partners, Inc., a Delaware corporation (FFP) was incorporated on August 11, 2006. FFP commenced operations January 2, 2007 in the United States as a general insurance agent focusing primarily on the distribution of Foresters insurance and annuity products. FFP is a wholly owned subsidiary of Foresters Financial Partners Holdings, Inc., a Delaware corporation (FFPH). FFPH was incorporated August 11, 2006.

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On January 2, 2007, Foresters purchased 250,000 voting common shares and 1 million voting preferred shares of FFPH. The shares were purchased at a price of US\$2 and US\$7.50 respectively. The Managing Partners of FFP will purchase, in aggregate, 250,000 voting common shares of FFPH at a price of US\$2 per share. It is expected that Foresters will maintain majority-voting rights for at least the first 5 years of FFPH's operations. Dividends on preferred stock will accrue at 6%, compounded quarterly. These dividends will have priority with respect to dividends over all other classes of equity shares issued by FFPH.

In the event that FFPH/FFP achieves certain predetermined cumulative production targets at the end of 2007, 2009, and 2011, FFPH will be deemed to have redeemed up to 50% of the issued preference shares held by Foresters.

In 2007, FFPH's financial statements will be fully consolidated into Foresters financial statements.