

2006 Financial Highlights *and* Consolidated Financial Statements [Click Here](#)

The Independent Order
of Foresters

Year ended
December 31, 2006



2006: Helping our members get **more** out of life

The past year was a highly positive one for Foresters, its members, its employees and its community partners, characterized by strong sales growth, sound financial results and significant community impact.

Business Overview

In North America, Foresters life sales increased by 45.6% and investment deposits were up by 92.7%, while life, investment and annuity sales in the United Kingdom were 69% higher than in 2005.

These impressive increases reflected aggressive product development, the expansion of the North American distribution network, double-digit sales force productivity improvements, and significant Individual Savings Account ("ISA") and Revenue Allocated Child Trust Fund sales in the United Kingdom.

The disciplined management approach underlying these sales increases enabled Foresters to achieve strong financial performance throughout its operations:

- Net income for the year totaled \$33 million, compared to \$66 million in 2005. This decrease reflects one-time costs relating to the restructuring of the U.S. sales force, the strengthening of actuarial liabilities and lower tax recoveries in 2006.
- Net investment income totaled \$381 million – up slightly from 2005.
- Total assets grew by \$369 million to \$5.8 billion.
- Foresters surplus remained strong at \$1.2 billion.
- Foresters solvency ratios remained strong in its three member countries.
- Foresters A.M. Best rating of "A" (Excellent) was confirmed in 2006¹.

Premiums totaled \$477 million, \$141 million higher than in 2005. Contributing

to this increase were a successful year in the United Kingdom in single premium ISA sales and an increase in annuity premiums in the United States related to transfers by existing members to new annuity products.

Also during the past year, Foresters paid or credited \$420 million in policy benefits to its members, including \$110 million in death claims, \$223 million in surrenders, annuity payments and other settlements, \$82 million in funds transferred to new annuity products and \$5 million in member benefits, including senior member, orphan and other benefits. Over and above these benefits, Foresters also paid or credited \$42 million in dividends to its members.

Foresters operating expenses decreased by \$3 million from 2005 levels, despite heavy investment in new product development and service delivery systems and the transitioning of the U.S. sales force to independent status. The full financial benefit of the transition will be seen in 2007.

Community Impact

Again in 2006, Foresters impact on our members' communities was significant:

- Foresters support of community causes was felt through direct investments in national and local community partnerships, branch funding and scholarships totaling \$17 million.
- Foresters members and employees volunteered more than two million hours of their personal time with

organizations, charities and local fundraising activities and helped Foresters charitable and community partners raise more than \$67 million.

- As international underwriting sponsor of the Children's Miracle Network Radiothon, Foresters helped this program raise more than U.S. \$47 million for participating children's hospitals across North America. In addition, our members donated over \$400,000 to local Children's Miracle Network hospitals and more than 6,000 hours of volunteer time at Children's Miracle Network events.
- In the United Kingdom, a total of \$2.7 million was raised for various charitable organizations including the Association of Children's Hospices, CLIC Sargent and Barnardo's.

In 2006, the total value of Foresters contributions to our members' communities (in the form of funds raised and volunteer hours at established values) was more than \$112 million.

Looking Ahead

Foresters enters 2007 as a strong and growing organization. With impressive sales increases being generated through improved products and marketing and our new independent distribution strategy, the future looks bright indeed.

I would like to acknowledge and thank our members, employees and distributors for the important role they have played in making 2006 such a memorable year. We look forward to even greater success in 2007 and beyond.

George Mohacsi
President and CEO

¹ See reference on page 5.

All amounts are shown in Canadian Dollars.

BOARD OF DIRECTORS

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& Group Managing
Director
United Kingdom

Management's Discussion and Analysis

Financial Review – Overview, Year ended December 31, 2006

All amounts are shown in Canadian Dollars.

General

Net income for the year ended December 31, 2006 was \$33 million, \$33 million lower than in 2005. The main drivers of this decrease were \$18.5 million restructuring costs incurred to move the U.S. sales force to an independent model, \$9 million lower tax recoveries, with the balance largely due to the strengthening of actuarial liabilities in 2006.

Total life and annuity premiums, of \$477 million, exceeded 2005 levels by \$141 million, or 42%. This significant increase was attributable to strong sales of single premium savings products including life Individual Savings Accounts ("ISA") and Child Trust Fund Revenue Allocated Accounts ("CTF RAA"), in the United Kingdom. Annuity premiums in the U.S. were up 148% over 2005 levels as a result of the replacement of Foresters older annuity products with better-designed annuity products introduced into the market in the latter part of 2005. A corresponding increase in annuity surrenders occurred as a result of the replacement of these products in the U.S.

Investment income of \$381 million was up 1% from 2005 levels. The positive impact of strong equity markets in both the U.S. and U.K. was offset by the strengthening of the Canadian dollar in 2006.

Policy benefits, at \$420 million, increased by 25% or \$84 million over 2005 primarily due to the replacement of old annuity products as previously mentioned.

Actuarial reserves increased substantially over 2005, predominantly due to increased sales of single premium products in the U.K.

Agency compensation increased by \$6 million primarily due to higher agency complement in the U.S., higher sales of U.S. annuity products and the buyout of future renewal commissions on the transfer of the sales force to an independent model. Effective January 2, 2007, Foresters transferred its U.S. sales force to Foresters Financial Partners, Inc. ("FFP"), a general insurance agency focusing primarily on the distribution of Foresters insurance and annuity products in the U.S.

Foresters operating expenses decreased by \$3 million compared to 2005. Included in operating expenses in 2006 are the one-time restructuring costs required to move the U.S. sales force to a general insurance agency, offset by the realized gain on the foreign exchange forward contract. Excluding the impact of restructuring costs, the realized gain and the strengthening of the Canadian dollar, operating expenses decreased by \$5 million or 3% over 2005 levels, primarily due to the restructuring of the service delivery and membership departments in late 2005.

Income taxes of \$8 million were \$10 million higher in 2006, largely due to lower refunds of Canadian income taxes in 2006.

Community Investment is comprised of direct funding of branch operations, community partnerships, scholarships, sponsorships and donations. Foresters direct investment in member communities totaled \$17 million in 2006, compared to \$20 million in 2005.

In-force Certificate Counts

This year, for the first time in many years, the number of certificates in-force increased over the prior year. The net increase was approximately 24,000 certificates and was attributable to over 38,000 CTF RAA certificates in-force in the U.K. at December 31, 2006. Based on the latest information published by the Financial Services Authority (for 2006), overall the U.K.'s 24-month persistency is better than the industry average for sales through company representatives.

In North America, Foresters in-force life and annuity certificate count has been declining over time. The most significant factor has been insufficient new sales to replace the natural run-off of existing certificates. Foresters block of business is mature and has a relatively low average certificate size. Mortality assumptions are proving accurate and persistency for business older than two years was in line with industry averages, while persistency for business within the first two years was worse than industry averages.

Year to date total certificate statistics were as follows:

(in thousands)	North America	United Kingdom	Total
In-force – beginning of period	404	160	564
New certificates	18	48	66
Death	(7)	(1)	(8)
Surrenders and maturities	(21)	(13)	(34)
Net change	<u>(10)</u>	<u>34</u>	<u>24</u>
In-force – end of period	394	194	588

Worldwide total insurance in-force continued to grow in 2006, increasing from \$18.8 billion at December 31, 2005 to \$20.0 billion at December 31, 2006.

Solvency

Financial strength is critical to generating new business, maintaining and expanding distribution networks and providing a base for future expansion and growth. Foresters maintained its "A" (Excellent) rating from A.M. Best¹. Foresters strong surplus position is well in excess of regulatory requirements and solvency ratios specified by local regulators are above industry averages in all three countries in which Foresters operates.

	December 2006	December 2005
Canada – MCCSR	391%	408%
United States – RBC Branch	425%	505%
United States – RBC Trusteed	284%	269%
United Kingdom – Free Asset Ratio	16%	19%

MCCSR – Minimum Continuing Capital and Surplus Requirement
RBC – Risk Based Capital

Performance by Business Segment

In North America, Foresters continues to rely on the strong performance of its surplus investments to offset losses in insurance operations and to produce a positive bottom line.

(\$ millions)	2006		2005	
Net Income by segment				
United States	(52)	(157%)	(31)	(47%)
Canada	4	12%	19	29%
United Kingdom	13	39%	16	24%
World Surplus	68	206%	61	94%
Total	33	100%	66	100%

¹ See reference on page 5.

Foresters rated A (Excellent) by the A.M. Best Company

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

United States

Foresters U.S. operations represent Foresters largest business segment, accounting for 53% of total worldwide premiums written and 88% of North American premiums in 2006.

Major Proprietary Products

Protection	Investment	Member Benefits
<ul style="list-style-type: none"> • Whole Life • Universal Life • Term Life 	<ul style="list-style-type: none"> • Deferred Annuity • Immediate Annuity • Equity Indexed Annuity 	<ul style="list-style-type: none"> • Competitive and Orphan Scholarships • Orphan Benefit • Terminal Illness Benefit • Critical Illness Benefits • Benevolence

62% of total traditional life sales came through Foresters relationship with an independent marketing organization ("IMO"). With an aim to improving insurance sales, Foresters launched Strong Foundation², a robust level term life insurance product with living benefits and guaranteed initial periods of 15, 20 and 30 years in the fourth quarter of 2006 and enhanced the product in the first quarter of 2007 to include 10-year term. Also in the first quarter, Forester Passport³, a universal life product, was made available for sale by the IMOs. Keeping with its ambitious product development calendar for 2007, Foresters annuity products – Foresters Secured Classic⁴ and Foresters Secured Plus⁵ – were enhanced with the Roth IRA feature.

Canada

Foresters Canadian operations accounted for 7% of total premiums in 2006 and represent Foresters smallest business segment. Current sales volumes suggest urgent consideration of the Canadian strategy, which will be completed early in 2007.

Major Proprietary Products

Protection	Investment	Member Benefits
<ul style="list-style-type: none"> • Whole Life • Universal Life • Term Life 	<ul style="list-style-type: none"> • Guaranteed Investment Certificates • Immediate Annuity • Segregated Funds 	<ul style="list-style-type: none"> • Competitive and Orphan Scholarships • Orphan Benefit • Terminal Illness Benefit • Critical Illness Benefits • Benevolence

²Foresters Strong Foundation: This certificate is filed under form number SIEN-US01-2006, SFEN-US01-2006, or SIEN-XX01-2006, SFEN-XX01-2006, where XX corresponds with your state's postal abbreviation. May not be available or approved in all states.

³Forester Passport: This product is filed under certificate form number USUL-US01-2002 and may not be available for sale in all states.

⁴Foresters Secured Classic: This product is filed under FSCF-US01-2005 (Flexible) and FSCS-US01-2005 (Single) and may not be available in all states. State variations may apply.

⁵Foresters Secured Plus: This product is filed under FSP-US01-2005 and may not be available in all states. State variations may apply.

United Kingdom

Foresters U.K. operations contributed 40% of total premiums written in 2006, compared to 29% in 2005.

Major Proprietary Products

Protection	Investment (savings)	Member Benefits
<ul style="list-style-type: none"> • Life Cover • Income Protection • Critical Illness • Combined Life and Critical Illness Cover 	<ul style="list-style-type: none"> • Individual Savings Accounts • Child Trust Fund • Savings and Investments • Personal Pensions 	<ul style="list-style-type: none"> • University Scholarships • Orphan Benefit and Scholarships • Terminal Illness Benefit • Benevolence

Strong sales of single premium savings products including ISAs and Child Trust Funds contributed to the significant increase in insurance premiums. Additionally, regular premiums were higher in 2006 as a result of the conversion of former segregated business (Open Ended Investment Company) into Forester Life ISAs in 2005.

World Surplus

The total \$1.2 billion of reported surplus includes surplus attributed to corporate surplus within each country and World Surplus. Foresters World Surplus account represents the excess surplus over a 250% MCCR level and is supported by \$800 million of invested assets. The threshold of 250% MCCR is not a regulatory requirement but a management allocation of surplus amounts above a level which allows each country segment sufficient assets to manage its operations. Investment income on these assets provides Foresters with the income and cash flow to fund its insurance and fraternal operations.

Future Outlook

Management expects 2007 to be a breakthrough year for its U.S. operations, focusing on an aggressive product development program and the growth of its distribution networks, with the introduction of at least one new IMO in the U.S. and ensuring a successful start up year for its U.S. general insurance agent, FFP, in 2007.

Management is confident that the development and implementation of a new Canadian marketing strategy focused on improving Foresters marketing and field distribution structure will help boost Canadian sales results in 2007.

In the U.K., Foresters is well positioned for another successful year of growth through attractive product offerings and expanded distribution capabilities.

Foresters relies on the continued commitment of its employees, business partners and agents, and the loyalty of its members in achieving these objectives.



Canada

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United Kingdom

Forester Health Ltd.
Forester Life Ltd.
Web: www.foresters.co.uk

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

The 2006 financial statements of Foresters, which are summarized in this report, can be obtained by writing to:

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

Consolidated Balance Sheets

As at December 31, 2006, with comparative figures for 2005 (In millions of Canadian dollars)

	2006	2005
Assets		
Investments:		
Cash and short-term securities	78	121
Bonds and other fixed-term securities	4,014	3,788
Mortgages	50	61
Common shares	1,281	1,056
Real estate	17	17
Loans to policyholders	197	196
Other invested assets	<u>20</u>	<u>16</u>
	5,657	5,255
Other assets	<u>100</u>	<u>132</u>
Total assets	<u>5,757</u>	<u>5,387</u>
Liabilities and Surplus		
Policy liabilities	3,860	3,612
Other insurance certificates and contract liabilities	97	86
Other liabilities	67	63
Deferred net gains realized on disposal of investments	<u>537</u>	<u>470</u>
Total liabilities	4,561	4,231
Surplus	1,196	1,156
Total Liabilities and surplus	<u>5,757</u>	<u>5,387</u>

Consolidated Statements of Income

For the years ended December 31, 2006, with comparative figures for 2005 (In millions of Canadian dollars)

	2006	2005
Revenue		
Premiums	477	336
Net investment income	381	378
Other income	<u>20</u>	<u>25</u>
	878	739
Policy Benefits and Expenses		
Policy benefits	420	336
Increase in policy liabilities	152	73
Dividends to members	42	43
Agent compensation	57	51
Operating expenses	149	152
Community Investment	<u>17</u>	<u>20</u>
	837	675
Income before income taxes	41	64
Income taxes	<u>8</u>	<u>(2)</u>
Net Income	<u>33</u>	<u>66</u>

The Consolidated Balance Sheets and Consolidated Statements of Income have been prepared in accordance with Canadian generally accepted accounting principles.

Consolidated Financial Statements and related note disclosures are now available at www.foresters.com

Auditors' Report

The Board of Directors,
The Independent Order of Foresters:

The accompanying summarized consolidated balance sheet and consolidated statement of income are derived from the complete consolidated financial statements of The Independent Order of Foresters ("Foresters") as at December 31, 2006 and for the year then ended on which we expressed an opinion without reservation in our report dated February 12, 2007. The fair summarization of the complete consolidated financial statements is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the summarized consolidated financial statements.

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

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



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 and I expressed an opinion on these liabilities without reservation in my report dated February 12, 2007.

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 contained in the accompanying summarized financial statements is consistent with the related complete consolidated financial statements.

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



Sharon T. Giffen
Fellow, Canadian Institute
of Actuaries
Toronto, Canada
February 12, 2007

FORESTERS

2007 Report to Members

FORESTERS (ISSN 1197-5016) is printed and mailed at Toronto, Canada, on paper that is certified by the Forest Stewardship Council to be from well-managed forests and contains 30% post consumer waste.



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Member in Good Standing, 2007

The National Fraternal Congress of America (NFC), the trade association of American fraternal benefit societies, recognizes Foresters for the highest standards of performance, both in fraternal programming and financial operation, over a one-year period.

Important Notice to Members

Your Board of Directors has designated *FORESTERS* Report to Members and Foresters web site www.foresters.com as the official publications of the society. This means that official announcements and information related to your membership will be made on this web site, including constitutional amendments approved at the International Assembly. U.K. members can access this Web site directly or through the U.K. site at www.foresters.co.uk.

Foresters next International Assembly will be held in Halifax, NS, from June 15 to 17, 2009. Elections in your branch for Regional Assembly delegates will start in the fall of 2007 through 2008. Watch your branch newsletter for details.