



Consolidated Financial Statements of

**THE INDEPENDENT ORDER OF  
FORESTERS**

Year ended December 31, 2007

# TABLE OF CONTENTS

## Page #

2	Management Statement on Responsibility for Financial Reporting
3	Auditors' Report
4	Appointed Actuary's Report
5	Consolidated Balance Sheets
7	Consolidated Statements of Income
8	Consolidated Statements of Comprehensive Income (Loss)
9	Consolidated Statements of Surplus
10	Consolidated Statements of Cash Flows
11	Consolidated Statements of Changes in Segregated Funds
11	Consolidated Statements of Segregated Funds' Net Assets
	<u>Notes to Consolidated Financial Statements</u>
12	1. Change in Accounting Policies
15	2. Significant Accounting Policies
21	3. Future Accounting Changes
22	4. Invested Assets
27	5. Impaired Loans
27	6. Derivative Financial Instruments
28	7. Securities Lending
29	8. Actuarial Liabilities
36	9. Income Taxes
37	10. Employee Benefit Plans
41	11. Segmented Information
43	12. Non-controlling Interest in Subsidiaries
43	13. Contingent Liabilities
43	14. Subsequent Events

## MANAGEMENT STATEMENT ON RESPONSIBILITY FOR FINANCIAL REPORTING

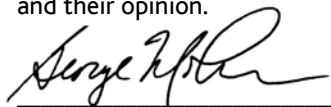
The consolidated financial statements have been prepared by management, who are responsible for their integrity, objectivity and reliability. Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada ("OSFI") have been 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 actuarial liabilities are in accordance with accepted actuarial practice and requirements. The Appointed Actuary is required to provide an opinion regarding the appropriateness of actuarial liabilities at the balance sheet date to meet all certificateholder obligations. Examination of supporting data for accuracy and completeness and analysis of assets for their ability to support the amount of actuarial 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 actuarial 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 11, 2008

## 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, 2007 and 2006 and the consolidated statements of income, comprehensive income (loss), 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, 2007 and 2006 and the results of its operations, cash flows and changes in net assets of its segregated funds for the years then ended in accordance with Canadian generally accepted accounting principles.

The image shows the handwritten signature "KPMG LLP" in black ink. The letters are in a cursive, slightly slanted font. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

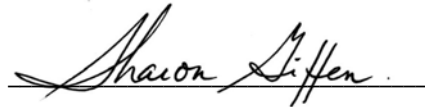
February 11, 2008

## APPOINTED ACTUARY'S REPORT

### The Board of Directors, The Independent Order of Foresters

I have valued the actuarial liabilities in the consolidated balance sheets of The Independent Order of Foresters as at December 31, 2007 and 2006 and their change in the consolidated statements of income for the years then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

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

A handwritten signature in cursive script, reading "Sharon Giffen", is written over a horizontal line.

Sharon Giffen

Fellow, Canadian Institute of Actuaries

Toronto, Canada

February 11, 2008

# THE INDEPENDENT ORDER OF FORESTERS

## Consolidated Balance Sheets

As at December 31 (In thousands of Canadian dollars)

	2007	2006
<b>Assets</b>		
<b>Investments (note 4)</b>		
Cash and short-term securities	\$ 81,510	\$ 78,412
Bonds and other fixed-term securities	3,641,233	4,013,982
Mortgages	30,122	49,809
Stocks	1,215,531	1,280,746
Real estate	19,058	16,802
Loans to certificateholders	171,498	196,511
Other invested assets	147,798	20,503
	<u>5,306,750</u>	<u>5,656,765</u>
<b>Other assets</b>		
Interest due and accrued	46,992	50,770
Other assets	34,834	49,552
	<u>81,826</u>	<u>100,322</u>
<b>Total assets</b>	<b>\$ 5,388,576</b>	<b>\$ 5,757,087</b>

*(See accompanying notes)*

# THE INDEPENDENT ORDER OF FORESTERS

## Consolidated Balance Sheets

As at December 31 (In thousands of Canadian dollars)

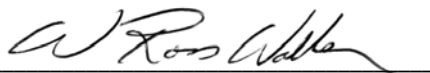
	2007	2006
<b>Liabilities and Surplus</b>		
<b>Liabilities</b>		
Actuarial liabilities (note 8)		
Insurance	\$ 2,859,986	\$ 2,809,302
Annuities	615,547	705,383
Fraternal	331,320	345,630
	<u>3,806,853</u>	<u>3,860,315</u>
Other insurance certificate and contract liabilities		
Benefits payable and provision for unreported claims	32,532	39,790
Certificateholders' amounts on deposit	54,386	57,319
	<u>86,918</u>	<u>97,109</u>
Other liabilities	56,002	66,367
Deferred net gains realized on disposal of investments (note 4)	22,472	536,953
	<u>3,972,245</u>	<u>4,560,744</u>
<b>Total liabilities</b>		
	<u>3,972,245</u>	<u>4,560,744</u>
<b>Surplus</b>	<u>1,416,331</u>	<u>1,196,343</u>
<b>Total liabilities and surplus</b>	\$ 5,388,576	\$ 5,757,087

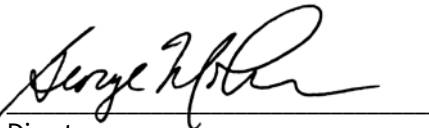
**Contingent liabilities** (note 13)

**Subsequent events** (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)

	2007	2006
<b>Revenue</b>		
Premiums		
Insurance	\$ 324,895	\$ 328,287
Annuities	57,984	148,316
Net investment income (note 4)	378,377	380,833
Other income	16,906	20,391
	<u>778,162</u>	<u>877,827</u>
<b>Certificateholder benefits and expenses</b>		
Certificateholder benefits	341,451	420,076
Change in actuarial liabilities (note 8)	48,424	151,921
Dividends to members	40,256	41,753
Agent compensation	55,507	56,551
Operating expenses	130,493	149,064
Fraternal investment	17,402	17,199
	<u>633,533</u>	<u>836,564</u>
<b>Income before income taxes</b>	<u>144,629</u>	<u>41,263</u>
<b>Income taxes (note 9)</b>		
Current	8,531	6,895
Future	(2,737)	1,135
	<u>5,794</u>	<u>8,030</u>
<b>Net income</b>	<u>\$ 138,835</u>	<u>\$ 33,233</u>

*(See accompanying notes)*

# THE INDEPENDENT ORDER OF FORESTERS

## Consolidated Statements of Comprehensive Income (Loss)

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

	2007	2006
<b>Net income</b>	\$ 138,835	\$ 33,233
<b>Other comprehensive income (loss)</b>		
Unrealized gains (losses) on available for sale assets, net of income tax of \$152	(37,574)	-
Recognition of realized gains (losses) on available for sale assets, net of income tax of \$ 849, to net income	(36,316)	-
Unrealized foreign currency translation gains (losses)	(221,595)	-
	<u>(295,485)</u>	<u>-</u>
<b>Total Comprehensive income (loss)</b>	\$ (156,650)	\$ 33,233

*(See accompanying notes)*

# THE INDEPENDENT ORDER OF FORESTERS

## Consolidated Statements of Surplus

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

	2007	2006
<b>Retained earnings</b>		
Balance, beginning of year	\$ 1,166,856	\$ 1,133,623
Change in accounting policy (note 1)	254,040	-
Net income	138,835	33,233
Balance, end of year	<u>\$ 1,559,731</u>	<u>\$ 1,166,856</u>
<b>Currency translation account</b>		
Balance, beginning of year	\$ 29,487	\$ 22,205
Reclassification to accumulated other comprehensive income (loss) (note 1)	(29,487)	-
Change during the year	-	7,282
Balance, end of year	<u>\$ -</u>	<u>\$ 29,487</u>
<b>Accumulated other comprehensive income (loss)*</b>		
Balance, beginning of year as a result of change in accounting policy (note 1)	\$ 152,085	\$ -
Other comprehensive income (loss)	(295,485)	-
Balance, end of year	<u>\$ (143,400)</u>	<u>\$ -</u>
<b>Total surplus</b>	<u>\$ 1,416,331</u>	<u>\$ 1,196,343</u>
<b>* Accumulated other comprehensive income (loss), net of income taxes:</b>		
Balance, end of year consists of:		
Unrealized gains (losses) on available for sale assets	\$ 48,708	\$ -
Unrealized foreign currency translation gains (losses)	(192,108)	-
	<u>\$ (143,400)</u>	<u>\$ -</u>

(See accompanying notes)

# THE INDEPENDENT ORDER OF FORESTERS

## Consolidated Statements of Cash Flows

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

	2007	2006
<b>Cash flows from operating activities</b>		
Net income	\$ 138,835	\$ 33,233
Items not affecting cash:		
Depreciation	671	1,254
Increase in policy liabilities	48,424	151,923
Amortization of deferred net investment gains	(3,159)	(134,332)
Change in fair value of investments	(127,119)	-
Future income taxes	(2,737)	1,135
Amortization of premium and discount on bonds	(3,207)	3,069
Net change in other assets and other liabilities	2,035	43,762
Decrease due to operating activities	<u>53,743</u>	<u>100,044</u>
<b>Cash flows from investing activities</b>		
Investments sold or matured:		
Bonds and other fixed-term securities	1,676,535	2,371,710
Stocks	684,784	601,063
Mortgages	13,278	-
Real estate	-	11,122
Investments acquired:		
Bonds and other fixed-term securities	(1,742,240)	(2,516,129)
Stocks	(650,520)	(609,988)
Real estate	(2,256)	-
Loans to policyholders (net)	(302)	1,243
Other invested assets (net)	(21,176)	(3,344)
Short-term securities (net)	(7)	989
Decrease due to investing activities	<u>(41,904)</u>	<u>(143,334)</u>
Foreign exchange gain (loss) on cash held in foreign currencies	<u>(8,541)</u>	<u>1,624</u>
<b>Net increase (decrease) in cash and cash equivalents for the year</b>	3,298	(41,666)
<b>Cash and cash equivalents, beginning of year</b>	<u>78,212</u>	<u>119,878</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 81,510</u>	<u>\$ 78,212</u>
<b>Represented by:</b>		
Cash	\$ 36,091	\$ 19,630
Short-term securities, with original maturities of three months or less	45,419	58,582
	<u>\$ 81,510</u>	<u>\$ 78,212</u>

*(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)

	2007	2006
<b>Net assets, beginning of year</b>	\$ 112,420	\$ 105,109
<b>Additions during the year</b>		
Premiums from contractholders	9,895	11,214
Investment income	2,623	2,484
Net realized gains on sale of investments	7,641	6,621
Net change in unrealized gains on investments	(7,905)	4,078
	<u>12,254</u>	<u>24,397</u>
<b>Deductions during the year</b>		
Withdrawals by contractholders	14,566	14,990
Management fees and other operating costs	2,261	2,096
	<u>16,827</u>	<u>17,086</u>
<b>Net assets, end of year</b>	<b>\$ 107,847</b>	<b>\$ 112,420</b>

*(See accompanying notes)*

## Consolidated Statements of Segregated Funds' Net Assets

As at December 31 (In thousands of Canadian dollars)

	2007	2006
Equities	\$ 83,190	\$ 88,301
Bonds	20,099	19,136
Cash and short-term securities	4,430	4,625
Accrued investment income	308	535
Liabilities	(180)	(177)
	<u>\$ 107,847</u>	<u>\$ 112,420</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 and annuity products.

Foresters is subject to the Insurance Companies Act - Canada, 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 (Minimum Continuing Capital and Surplus Requirement) which are dependent on the type and amount of insurance certificates 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. Change in accounting policies

### Financial instruments

Effective January 1, 2007, Foresters adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3855 "Financial Instruments – Recognition and Measurement," 1530 "Comprehensive Income" and 4211 "Life Insurance Enterprises – Specific Items". Section 4211 replaced section 4210. As a result, all financial assets and liabilities, except for actuarial liabilities accounted for in accordance with section 4211, are accounted for under the new standards. Prior to January 1, 2007, life insurance enterprises followed handbook section 4210, which contained financial instrument accounting policies, including equity impairments, specific to life insurance enterprises. The changes in accounting policies were adopted prospectively.

In addition to the adoption of the CICA standards, Foresters adopted OSFI Guideline D-10, Accounting for Financial Instruments Designated as "Held for Trading" (Fair Value Option), which provides additional guidance to certain federally regulated financial institutions, including life insurance companies.

In accordance with the new handbook sections, effective January 1, 2007, Foresters designated all financial assets as either held for trading, available-for-sale ("AFS") or loans and receivables. Financial instruments designated as held for trading, derivatives and AFS securities, except those that are not traded in an active market, are measured at fair value. Equities not traded in an active market are carried at cost.

- Foresters has chosen to designate bond and stock securities which support actuarial liabilities as held for trading in order to reduce the recognition inconsistency that would otherwise arise.
- Bond and stock securities which support surplus are designated as AFS.
- Mortgages are classified as loans and receivables and are carried at amortized cost.

# THE INDEPENDENT ORDER OF FORESTERS

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

---

## 1. Change in accounting policies (continued)

Changes in the fair value of securities designated as held for trading are reported in net income, while changes in the fair value of AFS securities are reported within other comprehensive income ("OCI"), until the financial asset is disposed of or becomes other than temporarily impaired, at which time it will be recognized in income.

With the introduction of the financial instrument standards, the life insurance standard section 4210 was also updated. The revised standard, known as section 4211, removes the unique investment accounting for insurance enterprises, except for real estate. Realized gains and losses on bonds, mortgages and equity investments are no longer deferred and amortized and therefore the balance of the deferred realized net gains at December 31, 2006, for other than real estate, was eliminated through opening retained earnings. In addition, section 4211 removes the unique move-to-market accounting and impairment accounting for equities. Under section 4210, equity impairments were not recognized unless the entire equity portfolio was impaired. Under the new standards the Company recognizes other than temporary impairments, on bonds or equities classified as AFS, on an individual security basis.

All financial liabilities, other than actuarial liabilities, are measured at fair value when they are classified as held for trading, designated as available for sale or are derivatives.

The determination of actuarial liabilities under section 4211 is based on the carrying value of assets required to support the liabilities. Consequently, the carrying value of actuarial liabilities was updated to reflect the changes as a result of implementing the new investment accounting standards.

Section 3855 permits derivatives designated within an effective hedging relationship to be accounted for under Section 3865, "Hedges" or to be excluded from hedge accounting and treated as either held for trading or available for sale. Foresters has chosen to classify derivative instruments used to support actuarial liabilities as held for trading. Foresters does not hold any derivatives classified as available for sale. The new accounting policies for derivatives are outlined in note 6.

The changes in accounting policies resulted in an increase to opening retained earnings of \$254,040 and an increase in opening accumulated other comprehensive income ("AOCI") of \$152,085. The currency translation account, previously reported as a separate component of retained earnings, has been reclassified to AOCI.

The following table summarizes the adjustments made to adopt the new standards:

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

## 1. Change in accounting policies (continued)

	2006 as reported	Opening adjustments	Notes	Adjusted January 1, 2007
<b>Assets:</b>				
Investments:				
Cash and short-term securities	\$ 78,412	\$ -		\$ 78,412
Bonds and other fixed-term securities	4,013,982	80,343	1	4,094,325
Mortgages	49,809	-		49,809
Common shares	1,280,746	203,220	2	1,483,966
Real estate	16,802	-		16,802
Loans to policyholders	196,511	-		196,511
Other invested assets	20,503	81,998	3	102,501
	<u>5,656,765</u>	<u>365,561</u>		<u>6,022,326</u>
Other assets:				
Interest due and accrued	50,770	-		50,770
Other assets	49,552	(26,887)	4	22,665
	<u>100,322</u>	<u>(26,887)</u>		<u>73,435</u>
<b>Total assets</b>	<u>\$ 5,757,087</u>	<u>\$ 338,674</u>		<u>\$ 6,095,761</u>
<b>Liabilities:</b>				
Actuarial liabilities (note 8):				
Insurance	\$ 2,809,302	\$ 404,325	5	\$ 3,213,627
Annuities	705,383	9,674	5	715,057
Fraternal	345,630	38,996	5	384,626
	<u>3,860,315</u>	<u>452,995</u>		<u>4,313,310</u>
Other insurance certificate and contract liabilities:				
Benefits payable and provision for unreported claims	39,790	-		39,790
Certificateholders amounts on deposit	57,319	-		57,319
	<u>97,109</u>	<u>-</u>		<u>97,109</u>
Other liabilities	66,367	16,504	6	82,871
Deferred net gains realized on disposal of investments	536,953	(507,463)	7	29,490
<b>Total liabilities</b>	<u>4,560,744</u>	<u>(37,964)</u>		<u>4,522,780</u>
<b>Surplus:</b>				
Retained earnings	1,166,856	254,040	9	1,420,896
Currency translation account	29,487	(29,487)	8	-
Accumulated other comprehensive income	-	152,085	9	152,085
<b>Total surplus</b>	<u>1,196,343</u>	<u>376,638</u>		<u>1,572,981</u>
<b>Total liabilities and surplus</b>	<u>\$ 5,757,087</u>	<u>\$ 338,674</u>		<u>\$ 6,095,761</u>

### Notes:

- <sup>1</sup> Net unrealized gains of \$72,884 on held for trading and \$7,459 on AFS investments
- <sup>2</sup> Net unrealized gains of \$87,808 on held for trading and \$115,412 on AFS investments
- <sup>3</sup> Net unrealized gains of \$4,063 on AFS investments and \$77,935 on foreign exchange forward contracts
- <sup>4</sup> Net adjustments to U.K. future tax asset of \$43,391 creating a future tax liability of \$16,504
- <sup>5</sup> Consequential impact on actuarial liabilities of change in accounting policies for investments
- <sup>6</sup> Reclassification of U.K. future tax liability (see note 4 above)
- <sup>7</sup> Elimination of bond, mortgage and equity net deferred realized gains
- <sup>8</sup> Transfer of the currency translation account to AOCI
- <sup>9</sup> Consequential impact of changes to opening surplus and AOCI as a result of the above changes

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

---

## 2. 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 actuarial liabilities which are discussed in note 8.

### (a) Basis of consolidation

These financial statements include the accounts of Foresters and its subsidiaries Foresters Holdings (Europe) Ltd., Foresters Securities (Canada) Inc., Sylvan Agency (Canada) Inc., Foresters Equity Services, Inc., and Foresters Financial Partners Holdings, Inc. Inter-company balances and transactions are eliminated and non-controlling interests in subsidiaries are included in other liabilities on the consolidated balance sheet and in general expenses on the consolidated statement of income.

### (b) Invested assets

Changes in accounting policies were applied prospectively in 2007, resulting in differences in accounting policies used to report bonds, stocks, mortgages and certain derivative financial instruments in 2006. These differences have been highlighted below:

- **Bonds and other fixed-term securities**

In 2007, bonds are designated as either held-for-trading or available-for-sale. Purchases and sales of bonds are recognized on the balance sheets on the trade dates, the date that Foresters commits to purchase or sell the bond.

The fair value of publicly traded bonds is determined using quoted market bid prices. For non-publicly traded bonds, fair value is determined using a discounted cash flow approach that includes provisions for credit risk and the expected maturities of the securities. Foresters does not have any bonds for which the fair value is determined using a valuation technique based on assumptions that are not supported by observable market prices or rates.

Held-for-trading bonds are recorded on the consolidated balance sheet at fair value, with realized gains and losses and changes in the fair value of these bonds recorded in net investment income on the consolidated statement of income.

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

---

## 2. Significant accounting policies (continued)

Available-for-sale bonds are recorded at fair value with changes in the fair value of these bonds recorded in unrealized gains and losses on the consolidated statement of comprehensive income (loss). Realized gains and losses on sale are reclassified from AOCI and recorded in net investment income on the consolidated statement of income.

In 2006, bonds and other fixed-term securities were carried at amortized cost. The difference between the proceeds on the sale of a security and its amortized cost was considered to be an adjustment of future portfolio yield and was deferred on the balance sheet and amortized to income over the remaining term to maturity.

- **Stocks**

In 2007, stocks are designated as either held-for-trading or available-for-sale. Purchases and sales of stocks are recognized on the consolidated balance sheet on the trade dates, the date that Foresters commits to purchase or sell the stocks.

The fair value of publicly traded stocks is determined using quoted market bid prices. For non-publicly traded stocks, fair value is estimated on the basis of dealer quotes or recent transactions of similar investments.

Held-for-trading stocks are recorded on the balance sheets at fair value, with realized gains and losses and changes in the fair value of these stocks recorded in net investment income on the consolidated statement of income.

Available-for-sale stocks are recorded on the consolidated balance sheet at their fair values with changes in the fair value of these stocks recorded in unrealized gains and losses on the consolidated statement of comprehensive income (loss). Realized gains and losses on sale are reclassified from AOCI and recorded in net investment income on the consolidated statement of income.

In 2006, common shares were carried at moving average market value whereby the carrying value was adjusted towards market value at 5% per quarter on a portfolio basis. Net realized gains and losses on the disposal of common shares were deferred and amortized to income at 5% per quarter on a declining balance basis.

- **Mortgages**

In 2007, mortgages are classified as loans and receivables and are carried at amortized cost. The difference between the proceeds on sale and outstanding principal balance is recorded in net investment income on the consolidated statement of income.

# THE INDEPENDENT ORDER OF FORESTERS

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

---

## 2. Significant accounting policies (continued)

In 2006, mortgages were carried at amortized cost. The difference between the proceeds on sale and outstanding principal balance was deferred on the consolidated balance sheet and amortized to income over the remaining term of the loan sold.

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.

- **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.

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.

The accounting basis used in 2007 is unchanged from that used in 2006.

- **Loans to certificateholders**

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

The accounting basis used in 2007 is unchanged from that used in 2006.

- **Derivative financial instruments**

Foresters utilizes certain derivative financial instruments in portfolios supporting actuarial liabilities in order to hedge against fluctuations in interest rates, foreign exchange rates and stock market indices. In 2007, these derivative financial instruments are classified as held for trading and are recorded on the consolidated balance sheet at fair value, with realized gains and losses and changes in the fair value of these contracts recorded in net investment income on the consolidated statement of income. The fair value of derivative financial instruments is based on quoted market prices.

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

---

## 2. Significant accounting policies (continued)

In 2006, the fair value and changes in the fair value of these contracts was reflected in the determination of actuarial liabilities and the change in actuarial liabilities respectively. Realized gains and losses on the settlement of these contracts were recorded as a reduction to general expenses on the consolidated statement of income.

- **Limited partnerships**

In 2007, limited partnerships are classified as available for sale and are recorded on the consolidated balance sheet at cost plus Foresters pro-rata share of net income (loss) less any distributions paid. Where fair values are available, the cost of these assets is adjusted to fair value with changes in fair value recorded in unrealized gains and losses on the consolidated statement of comprehensive income (loss). Realized gains and losses on sale are reclassified from AOCI and recorded in net investment income on the consolidated statement of income.

In 2006, limited partnerships were also recorded on the consolidated balance sheet at cost plus Foresters pro-rata share of net income (loss) less any distributions paid. Realized gains and losses would have been recorded in net investment income on the consolidated statement of income.

- **Cash and short-term securities**

Cash and short-term investments comprise cash, current operating accounts, overnight bank and term deposits.

### (c) Provisions for asset defaults

Foresters makes specific provisions against invested assets where there has been other than a temporary decline in the underlying value of an asset. When an asset 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. For bonds and mortgages, 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 no longer required; otherwise, they are recorded as a reduction in principal.

### (d) Other Assets

Other assets consist primarily of accounts receivable and fixed assets. Accounts receivable are carried at cost and fixed assets at cost less accumulated depreciation.

The fair value of these assets approximates the carrying value due to the short-term nature of these financial instruments.

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

---

## 2. Significant accounting policies (continued)

### (e) Segregated fund investments

Foresters manages a number of segregated funds on behalf of certificateholders. Substantially all risks and rewards of ownership accrue to segregated fund certificateholders; consequently, these assets are segregated and presented separately from Foresters general fund. The assets of these funds are carried at market values. Income earned from fund management fees is included in other income of the general fund.

### (f) Actuarial liabilities

Actuarial liabilities have been calculated using the Canadian Asset Liability Method ("CALM"). Actuarial 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.

### (g) Premium revenues

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.

### (h) Transaction costs

Transaction costs on the purchase or sale of an investment are expensed as incurred for all investments classified as both held for trading and available for sale.

### (i) Fraternal investment

Fraternal investment represents the contribution made by Foresters in the three countries where Foresters operates. These contributions 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.

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

---

## 2. Significant accounting policies (continued)

### (j) 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.

### (k) 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 were accumulated in the currency translation account in 2006, a separate component of surplus, and are included in AOCI in 2007.

### (l) 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.

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

---

## 2. Significant accounting policies (continued)

- 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 11.9 years (2006 – 10.6 years). The average remaining service period of the active employees covered by the other retirement benefit plans (on a weighted average basis) is 30.2 years (2006 – 11.6 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, 2007 is approximately 12.6 years for the pension plans and 7.2 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.

## 3. Future accounting changes

In December 2006, the CICA issued three new accounting standards: Accounting Changes, Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures and Handbook Section 3863, Financial Instruments – Presentation. The following summarizes the future accounting changes that will be relevant to the Company's financial statements commencing January 1, 2008.

Handbook Section 1535 requires the following disclosures: (i) qualitative information about an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity manages as capital; (iii) whether the entity has complied with any externally imposed capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements but not changing the existing presentation requirements for financial instruments. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Handbook Section 3862 requires qualitative and quantitative

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

## 3. Future accounting changes (continued)

disclosure of: (i) exposures to risks arising from financial instruments, how they arose and the potential impact on the amount, timing and certainty of future cash flows; (ii) information about the risk management function and the reporting and measurement systems used; (iii) the entity's policies for hedging or mitigating risk and avoiding concentrations of risk; and (iv) the sensitivity to individual market risk factors together with the methodology for performing the analysis. Handbook Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

## 4. Invested assets

### a) Fair value and carrying value

The fair value and carrying value of invested assets are as follows:

	2007			Total \$
	Held for Trading \$	Available for sale \$	Other \$	
<b>Carrying value *</b>				
Cash and short-term securities	81,510	-	-	81,510
Bonds and other fixed-term securities	3,101,618	539,615	-	3,641,233
Mortgages	-	-	30,122	30,122
Common shares	565,225	650,306	-	1,215,531
Real estate	-	-	19,058	19,058
Loans to policyholders	-	-	171,498	171,498
Other invested assets	98,184	47,613	2,001	147,798
	<u>3,846,537</u>	<u>1,237,534</u>	<u>222,679</u>	<u>5,306,750</u>
<b>Fair Value</b>				
Cash and short-term securities	81,510	-	-	81,510
Bonds and other fixed-term securities	3,101,618	539,615	-	3,641,233
Mortgages	-	-	31,628	31,628
Common shares	565,225	650,306	-	1,215,531
Real estate	-	-	19,250	19,250
Loans to policyholders	-	-	171,498	171,498
Other invested assets	98,184	47,613	2,001	147,798
	<u>3,846,537</u>	<u>1,237,534</u>	<u>224,377</u>	<u>5,308,448</u>

\* Recognized on the balance sheet

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

## 4. Invested assets (continued)

	2006	
	Carrying value	Fair value
	\$	\$
Cash and short-term securities	78,412	78,412
Bonds and other fixed-term securities	4,013,982	4,096,677
Mortgages	49,809	52,300
Common shares	1,280,746	1,484,421
Real estate	16,802	17,017
Loans to policyholders	196,511	196,511
Other invested assets	20,503	24,564
	5,656,765	5,949,902

### (b) Interest rate and credit risk

- **Cash and short-term securities**

Short-term securities comprise notes and commercial paper with a maximum maturity date of March 28, 2008 and effective interest rates of 4.20% to 4.75% (2006 – 4.25% to 5.36%). Cash and short-term securities are comprised of:

	2007	2006
	\$	\$
Cash	36,091	19,630
Short-term securities with an original maturity of 90 days or less	45,212	58,582
	81,303	78,212
Short-term securities with an original maturity of greater than 90 days	207	200
	81,510	78,412

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

## 4. Invested assets (continued)

- **Bonds and other fixed-term securities**

	Average effective yield	
	2007	2006
Corporate	5.48%	5.16%
Government	5.42%	5.29%
Other	5.02%	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 U.S.-\$75,000 of the U.S. bond portfolio, CDN-\$20,000 of the Canadian bond portfolio and £9,000 of the United Kingdom bond portfolio. The U.S. 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 value	
	2007	2006
	\$	\$
<b>Term to maturity</b>		
<b>Corporate:</b>		
Due in one year or less	138,922	73,960
One through five years	541,793	806,754
After five years	1,253,257	1,417,750
	1,933,972	2,298,464
<b>Government:</b>		
Due in one year or less	25,477	4,275
One through five years	169,407	154,852
After five years	1,506,429	1,549,378
	1,701,313	1,708,505
<b>Other:</b>		
Due in one year or less	5,948	-
One through five years	-	7,013
	3,641,233	4,013,982

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)

## 4. Invested assets (continued)

- **Mortgages**

	2007			2006		
	Carrying value	Average effective rate	Average maturity (years)	Carrying value	Average effective rate	Average maturity (years)
	\$			\$		
Commercial	28,158	7.2%	2.5	47,213	7.2%	3.1
Multiple residential	1,964	8.1%	6.0	2,596	8.1%	7.0
	30,122	7.2%	2.7	49,809	7.2%	3.3

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 U.S. and Canada. The U.K. limits its mortgage exposure to 1% of its total assets.

- **Stocks**

Stocks, with fair values of \$1,215,531 (2006 - \$1,484,421), have no fixed maturity dates and are generally not directly exposed to interest rate risk.

Foresters limits its investment concentration of stocks 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 U.S. large capitalization portfolio is managed with reference to the S&P 500 index. The U.S. mid capitalization portfolio, REITs and international portfolios have a single issue maximum of 10% of its respective portfolio, while in the U.K. 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 invested assets.

- **Real estate**

Investments in real estate are limited to 15% of total Foresters assets.

- **Loans to certificateholders**

Loans to certificateholders have effective interest rates principally ranging from 5% to 8% (2006 - 5% to 8%), with an average effective rate of 5.3% (2006 - 5.4%).

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

## 4. Invested assets (continued)

### (c) Deferred net gains realized on disposal of investments

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

	2007	2006
	\$	\$
Bonds and other fixed-term securities	-	198,243
Stocks	-	308,268
Real estate (note 1)	22,472	28,995
Mortgages	-	1,447
	<u>22,472</u>	<u>536,953</u>

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

	2007			2006	
	Held for trading	Available for sale	Other	Total	Total
	\$	\$	\$	\$	\$
<b>Investment income</b>					
Cash and short-term securities	3,879	-	-	3,879	4,824
Bonds and other fixed-term securities	171,315	28,771	-	200,086	197,148
Mortgages	-	-	2,703	2,703	36,094
Stocks	21,939	18,287	-	40,226	3,793
Real estate	-	-	(855)	(855)	176
Loans to certificateholders	-	-	9,782	9,782	10,167
Other invested assets	(133)	-	(967)	(1,100)	420
	<u>197,000</u>	<u>47,058</u>	<u>10,663</u>	<u>254,721</u>	<u>252,622</u>
<b>Net recognized gains (losses) *</b>					
Bonds and other fixed-term securities	4,567	(5,044)	-	(477)	23,398
Mortgages	-	-	205	205	368
Stocks	(11,471)	95,144	-	83,673	106,866
Real estate	-	-	3,159	3,159	3,700
Other invested assets	43,718	-	-	43,718	-
	<u>36,814</u>	<u>90,100</u>	<u>3,364</u>	<u>130,278</u>	<u>134,332</u>
	<u>233,814</u>	<u>137,158</u>	<u>14,027</u>	<u>384,999</u>	<u>386,954</u>
<b>Less investment expense</b>	<u>(1,809)</u>	<u>(4,813)</u>	<u>-</u>	<u>(6,622)</u>	<u>(6,121)</u>
<b>Net investment income</b>	<u>232,005</u>	<u>132,345</u>	<u>14,027</u>	<u>378,377</u>	<u>380,833</u>

\* In 2006, the balance was comprised of the amortization of deferred realized gains on bonds, mortgages, common shares and real estate and the amortization of unrealized gains on stocks and real estate.

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

## 4. Invested assets (continued)

Cash received on account of investment income, excluding the impact of principal transactions, in 2007 was \$414,045 (2006 - \$249,570).

## 5. 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, 2007 and 2006 no allowances were required for individual loans or groups of loans.

## 6. Derivative financial instruments

Foresters utilizes derivative financial instruments, including options and foreign exchange forward contracts, when appropriate, to hedge against fluctuations in foreign exchange rates and changes in stock market indices. Foresters does not enter into these financial instruments for trading or speculative purposes. Foresters only enters into derivative financial contracts with approval from the Board of Directors at which time authorization limits are set for specific personnel and 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. Adherence to these policies is monitored regularly and reported to the Investment Committee annually.

The following table summarizes derivative financial instruments outstanding at December 31.

	Notional amount by remaining term to maturity				Fair value			Credit equivalent amount	Risk weighted amount
	Under 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative	Net		
	\$	\$	\$	\$	\$	\$	\$		
<b>2007</b>									
Foreign exchange forward contracts	32,478	126,412	295,114	454,004	96,942	-	96,942	125,543	62,861
Options purchased	-	-	-	-	2,407	-	2,407	-	-
Options written	-	-	-	-	-	1,167	(1,167)	-	-
	<u>32,478</u>	<u>126,412</u>	<u>295,114</u>	<u>454,004</u>	<u>99,349</u>	<u>1,167</u>	<u>98,182</u>	<u>125,543</u>	<u>62,861</u>
<b>2006</b>									
Foreign exchange forward contracts	34,036	125,792	328,211	488,039	78,126	192	77,934	109,181	54,686
Options purchased	-	-	-	-	3,280	-	3,280	-	-
Options written	-	-	-	-	-	1,645	(1,645)	-	-
	<u>34,036</u>	<u>125,792</u>	<u>328,211</u>	<u>488,039</u>	<u>81,406</u>	<u>1,837</u>	<u>79,569</u>	<u>109,181</u>	<u>54,686</u>

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

---

## 6. Derivative financial instruments (continued)

Notional amount represents the face amount of derivative financial instruments to which a rate or price is applied to determine the amount of cash flows to be exchanged. It represents the volume of outstanding derivative financial instruments and does not represent the potential gain or loss associated with market risk or credit risk of such instruments.

Fair value of a derivative financial instrument is equivalent to the replacement cost based on quoted market prices. Positive fair value, representing an unrealized gain to Foresters, is the maximum credit risk measured as of the balance sheet date if the counterparties were to default on their obligations to Foresters.

Credit equivalent amount is the sum of replacement cost and the potential future credit exposure. The potential future credit exposure represents the potential for future losses that may result from future changes in fair value and is calculated based on a formula prescribed by OSFI.

Risk weighted amount represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

## 7. 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, 2007, securities with an estimated market value of \$453,281 (2006 - \$425,560) were on loan. Foresters has received collateral with an estimated market value of \$462,337 (2006 - \$436,031).

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

---

## **8. Actuarial liabilities**

### **(a) Nature of actuarial liabilities**

Actuarial 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 certificates in force.

Actuarial 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 actuarial 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 actuarial 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 material product lines, 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 certificate, the effect of those changes is recognized in income immediately.

### **(b) Actuarial 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 that have characteristics appropriate for the related actuarial 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 (note 6). Actuarial liabilities are matched with assets denominated in the same currency in order to avoid unintended exposure to foreign currency fluctuations.

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

## 8. Actuarial liabilities (continued)

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

2007	United States				Canada				United Kingdom				Corporate	Total
	Insurance	Annuities	Fraternal	Total	Insurance	Annuities	Fraternal	Total	Insurance	Annuities	Fraternal	Total		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Assets</b>														
Cash and short-term securities	8,802	5,958	2,794	17,554	473	3,435	136	4,044	240	301	927	1,468	58,444	81,510
Bonds and fixed-term securities	1,429,985	397,223	206,003	2,033,211	358,025	85,161	40,474	483,660	356,331	85,066	43,850	485,247	639,115	3,641,233
Mortgages	14,038	16,084	-	30,122	-	-	-	-	-	-	-	-	-	30,122
Stocks	113,458	10,392	-	123,850	46,476	-	4,064	50,540	337,166	52,596	-	389,762	651,379	1,215,531
Real estate	-	-	-	-	-	-	145	145	-	-	-	-	18,913	19,058
Certificateholder loans	137,864	-	-	137,864	25,149	-	-	25,149	-	8,485	-	8,485	-	171,498
Other invested assets	75,579	1,242	26,236	103,057	-	-	-	-	-	-	-	-	44,741	147,798
<b>Total invested assets</b>	<b>1,779,726</b>	<b>430,899</b>	<b>235,033</b>	<b>2,445,658</b>	<b>430,123</b>	<b>88,596</b>	<b>44,819</b>	<b>563,538</b>	<b>693,737</b>	<b>146,448</b>	<b>44,777</b>	<b>884,962</b>	<b>1,412,592</b>	<b>5,306,750</b>
Accrued investment income	17,073	5,268	2,351	24,692	3,408	792	365	4,565	5,851	1,493	-	7,344	10,391	46,992
Other assets	21,184	(79)	9,904	31,009	255	96	9,979	10,330	814	1,070	3,657	5,541	(12,046)	34,834
<b>Total assets</b>	<b>1,817,983</b>	<b>436,088</b>	<b>247,288</b>	<b>2,501,359</b>	<b>433,786</b>	<b>89,484</b>	<b>55,163</b>	<b>578,433</b>	<b>700,402</b>	<b>149,011</b>	<b>48,434</b>	<b>897,847</b>	<b>1,410,937</b>	<b>5,388,576</b>
<b>Liabilities and Surplus</b>														
<b>Liabilities</b>														
Net actuarial liabilities	1,769,706	387,845	234,102	2,391,653	408,506	90,284	50,043	548,833	681,775	137,417	47,175	866,367	-	3,806,853
Other policy liabilities	26,384	40,669	-	67,053	10,962	36	-	10,998	8,229	623	15	8,867	-	86,918
Other liabilities	4,213	3,849	146	8,208	1,214	464	1,699	3,377	5,824	7,518	-	13,342	31,075	56,002
Net deferred gains	16,486	1,848	2,169	20,503	168	-	1,600	1,768	-	-	-	-	201	22,472
<b>Total liabilities</b>	<b>1,816,789</b>	<b>434,211</b>	<b>236,417</b>	<b>2,487,417</b>	<b>420,850</b>	<b>90,784</b>	<b>53,342</b>	<b>564,976</b>	<b>695,828</b>	<b>145,558</b>	<b>47,190</b>	<b>888,576</b>	<b>31,276</b>	<b>3,972,245</b>
<b>Surplus</b>														
Retained earnings	1,194	1,877	10,871	13,942	12,936	(1,300)	1,821	13,457	4,574	3,453	1,244	9,271	1,523,061	1,559,731
Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	(143,400)	(143,400)
<b>Total surplus</b>	<b>1,194</b>	<b>1,877</b>	<b>10,871</b>	<b>13,942</b>	<b>12,936</b>	<b>(1,300)</b>	<b>1,821</b>	<b>13,457</b>	<b>4,574</b>	<b>3,453</b>	<b>1,244</b>	<b>9,271</b>	<b>1,379,661</b>	<b>1,416,331</b>
<b>Total Liabilities and Surplus</b>	<b>1,817,983</b>	<b>436,088</b>	<b>247,288</b>	<b>2,501,359</b>	<b>433,786</b>	<b>89,484</b>	<b>55,163</b>	<b>578,433</b>	<b>700,402</b>	<b>149,011</b>	<b>48,434</b>	<b>897,847</b>	<b>1,410,937</b>	<b>5,388,576</b>

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

## 8. Actuarial liabilities (continued)

2006	United States				Canada				United Kingdom				Corporate	Total
	Insurance	Annuities	Fraternal	Total	Insurance	Annuities	Fraternal	Total	Insurance	Annuities	Fraternal	Total		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Assets</b>														
Cash and short-term securities	735	284	5,531	6,550	413	213	2,901	3,527	493	132	241	866	67,469	78,412
Bonds and fixed-term securities	1,596,898	484,941	257,214	2,339,053	330,235	90,071	46,259	466,565	361,714	91,228	56,113	509,055	699,309	4,013,982
Mortgages	23,572	26,237	-	49,809	-	-	-	-	-	-	-	-	-	49,809
Stocks	132,437	12,092	(7,099)	137,430	57,526	-	3,725	61,251	334,463	54,369	-	388,832	693,233	1,280,746
Real estate	-	-	-	-	-	-	145	145	-	-	-	-	16,657	16,802
Certificateholder loans	161,764	-	-	161,764	25,033	-	-	25,033	9,554	160	-	9,714	-	196,511
Other invested assets	-	1,638	2,963	4,601	-	10,647	-	10,647	-	-	-	-	5,255	20,503
<b>Total invested assets</b>	<b>1,915,406</b>	<b>525,192</b>	<b>258,609</b>	<b>2,699,207</b>	<b>413,207</b>	<b>100,931</b>	<b>53,030</b>	<b>567,168</b>	<b>706,224</b>	<b>145,889</b>	<b>56,354</b>	<b>908,467</b>	<b>1,481,923</b>	<b>5,656,765</b>
Accrued investment income	20,773	5,976	2,999	29,748	3,078	767	410	4,255	6,511	1,349	3,707	11,567	5,200	50,770
Other assets	(625)	-	-	(625)	(2,262)	-	-	(2,262)	18,846	5,811	-	24,657	27,782	49,552
<b>Total assets</b>	<b>1,935,554</b>	<b>531,168</b>	<b>261,608</b>	<b>2,728,330</b>	<b>414,023</b>	<b>101,698</b>	<b>53,440</b>	<b>569,161</b>	<b>731,581</b>	<b>153,049</b>	<b>60,061</b>	<b>944,691</b>	<b>1,514,905</b>	<b>5,757,087</b>
<b>Liabilities and Surplus</b>														
<b>Liabilities</b>														
Net actuarial liabilities	1,857,236	485,114	241,039	2,583,389	358,434	89,618	47,362	495,414	593,632	130,651	57,229	781,512	-	3,860,315
Other policy liabilities	21,787	53,419	288	75,494	9,335	1,507	62	10,904	9,497	1,214	-	10,711	-	97,109
Other liabilities	3,163	3,268	295	6,726	1,782	570	1,092	3,444	2,139	7,416	491	10,046	46,151	66,367
Net deferred gains	118,128	2,427	10,724	131,279	38,092	8,877	4,907	51,876	101,256	27,654	-	128,910	224,888	536,953
<b>Total liabilities</b>	<b>2,000,314</b>	<b>544,228</b>	<b>252,346</b>	<b>2,796,888</b>	<b>407,643</b>	<b>100,572</b>	<b>53,423</b>	<b>561,638</b>	<b>706,524</b>	<b>166,935</b>	<b>57,720</b>	<b>931,179</b>	<b>271,039</b>	<b>4,560,744</b>
<b>Surplus</b>														
Retained earnings	(64,760)	(13,060)	9,262	(68,558)	6,380	1,126	17	7,523	25,057	(13,886)	2,341	13,512	1,214,379	1,166,856
Currency translation account	-	-	-	-	-	-	-	-	-	-	-	-	29,487	29,487
<b>Total surplus</b>	<b>(64,760)</b>	<b>(13,060)</b>	<b>9,262</b>	<b>(68,558)</b>	<b>6,380</b>	<b>1,126</b>	<b>17</b>	<b>7,523</b>	<b>25,057</b>	<b>(13,886)</b>	<b>2,341</b>	<b>13,512</b>	<b>1,243,866</b>	<b>1,196,343</b>
<b>Total Liabilities and Surplus</b>	<b>1,935,554</b>	<b>531,168</b>	<b>261,608</b>	<b>2,728,330</b>	<b>414,023</b>	<b>101,698</b>	<b>53,440</b>	<b>569,161</b>	<b>731,581</b>	<b>153,049</b>	<b>60,061</b>	<b>944,691</b>	<b>1,514,905</b>	<b>5,757,087</b>

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

## 8. Actuarial liabilities (continued)

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

	2007	2006
	\$	\$
<b>Balance, beginning of year*</b>	12,207	22,835
Net strengthening (release) of provision**	2,438	(10,452)
Impact of change in foreign exchange rates	(1,592)	(176)
<b>Balance, end of year*</b>	13,053	12,207

\* 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) Actuarial assumptions

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

#### Certificate 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.

#### Certificate lapse rates

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

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

---

## 8. Actuarial liabilities (continued)

### Investment income

The computation of actuarial liabilities takes into account projected net investment income on assets supporting these 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).

### Certificate maintenance expenses

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

The actuarial valuation is somewhat sensitive to this assumption; a 1% ongoing increase in the future maintenance costs assumed would increase the actuarial liabilities by approximately \$5 million.

### Certificateholder dividends

Future certificateholder dividends are included in the determination of actuarial liabilities for participating certificates, with the assumption that certificateholder dividends will change in the future to reflect the experience of the respective participating accounts, consistent with the participating certificateholder dividend policy.

## (d) Sensitivity to interest rate changes and market risk

Major factors that could impact 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.

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

---

## 8. Actuarial liabilities (continued)

### Interest rate and market risk

For most of the interest sensitive products, annuities and universal life certificates, 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 actuarial liabilities on these products of approximately \$32 million.

Many of the annuity and universal life insurance certificates have minimum credited interest rate guarantees, ranging from 1.5% to 4.0%. These products are sensitive to a sustained decline in interest rates. The dividend paying traditional life insurance products are also sensitive to a sustained decline in interest rates. However, this impact would only be realized in the long term because dividends would be reduced as the yield on the asset portfolio declines.

It is more difficult to fully reflect the impact of a sharp setback in the market on dividends credited on certificates and particularly on interest rates credited on interest sensitive products. Under Foresters investment policies, the level of tolerable sensitivity to a sustained 1% reduction in interest rates, combined with a sustained 10% reduction in stock markets is benchmarked to be not greater than a 10% reduction in MCCSR. At December 31, 2007, this benchmark was \$34 million, being the surplus reduction which would result in a 10% reduction in MCCSR. A 1% reduction in interest rates, combined with a sustained 10% reduction in stock markets, results in a \$27 million increase in actuarial liabilities and a corresponding decrease in net income.

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.

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

## 8. Actuarial liabilities (continued)

### (e) Explanation of changes in actuarial liabilities during the year

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

	2007	2006
	\$	\$
<b>Actuarial liabilities, beginning of year</b>	3,860,315	3,612,231
Adjustment for change in accounting policy (Note 1)	452,995	-
	<u>4,313,310</u>	<u>3,612,231</u>
New business	115,479	219,448
Renewals, maturity, claims and surrenders	(22,913)	(77,844)
Refinement of assumptions (see 1 below)	(19,104)	2,765
Refinement of methods and models (see 2 below)	(14,975)	7,552
Impact of fair value movement	(10,063)	-
	<u>48,424</u>	<u>151,921</u>
Impact of change in foreign exchange rates	<u>(554,881)</u>	<u>96,163</u>
<b>Actuarial liabilities, end of year</b>	<u>3,806,853</u>	<u>3,860,315</u>

An impact analysis of the major actuarial factors in 2007 and 2006 is as follows. Note that impact items in 2007 are shown before any adjustment for fair value reporting.

- 1) Changes in actuarial liabilities from assumption refinements in 2007 included: increases due to falling interest rates, exchange rate movement and dividend scale increases; decreases due to updated mortality and renewal commission assumptions, and decreases related to the expected cost of Havens benefit and reduced unit maintenance expense factors, offset in the fraternal line by the establishment of a new provision for enhancement of member value.
- 2) Changes in actuarial liabilities from assumption refinements in 2006 included: increase related to unfavourable mortality experience and foreign exchange rates; and decreases related to favourable interest rates and 2006 dividend scale changes; a portion of those decreases on traditional life were offset through a provision to benefits members as part of the 2008 dividend review.
- 3) Changes in actuarial liabilities from refinement of methods and models in 2007 are comprised of: a correction of cost of insurance rates in Universal Life, and modeling improvements for dividend-paying traditional life. In 2006, changes were: increase related to modeling improvements on universal life; and decreases related to modeling improvements on traditional life.

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

## 9. Income taxes

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

	2007 \$	2006 \$
<b>Canadian</b>		
Current income taxes	4,399	7,260
Income tax recovery	(206)	(5,688)
	4,193	1,572
<b>United Kingdom</b>		
Current income taxes	4,338	5,323
Future income taxes	(2,737)	1,135
	1,601	6,458
<b>Total</b>	5,794	8,030

The Canadian income tax recovery amount of \$206 (2006 - \$5,688) results from the favorable outcomes of tax disputes with the provincial ministries for the years 1996 to 1998.

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

	2007 \$	2006 \$
<b>Future income tax assets</b>		
Actuarial liabilities	61,535	52,233
Deferred net gains	(10,401)	35,354
Tax loss carryforwards	5,732	7,867
Other	859	720
	57,725	96,174
<b>Less valuation allowance</b>	(39,672)	(54,425)
<b>Future income tax liabilities arising from investments</b>	(29,116)	(14,862)
<b>Net future income tax asset (liability)</b>	(11,063)	26,887

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

## 9. Income taxes (continued)

(c) Cash taxes paid in 2007 were \$8,331 (2006 - \$12,043).

(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:

	2007 %	2006 %
<b>Combined federal and provincial statutory income tax rate for the current year</b>	34.98	34.97
<b>Increase (decrease) in rate due to:</b>		
Lower net average tax rate of foreign jurisdictions and Canadian fraternal operations *	(33.86)	(19.28)
Capital taxes	1.95	4.82
Recovery of Canadian taxes	(0.14)	(13.77)
Taxes paid on behalf of prior years	0.16	8.19
Other	0.93	4.53
<b>Effective income tax rate</b>	4.02	19.46

\* 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.

## 10. 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 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.

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

## 10. 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, 2006 for the North American plans and March 2005 for the UK. The effective date of the next required valuation is December 31, 2009 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:

	2007		2006	
	Pension benefits \$	Other benefits \$	Pension benefits \$	Other benefits \$
<b>Reconciliation of accrued benefit obligation</b>				
Accrued benefit obligation, beginning of year	165,444	21,881	160,796	22,818
Service cost	5,446	302	6,844	946
Employee contributions	52	-	15	-
Interest cost	8,355	827	8,227	939
Benefits paid	(7,201)	(904)	(7,622)	(961)
Actuarial (gains)/losses	(10,515)	(1,756)	(5,079)	(1,877)
Impact of change in foreign exchange rates	(4,463)	(2,636)	2,263	16
Accrued benefit obligation, end of year	157,118	17,714	165,444	21,881
<b>Reconciliation of fair value of plan assets:</b>				
Fair value of plan assets, beginning of year	229,489	-	213,402	-
Return on plan assets	8,615	-	20,483	-
Employer contributions	703	-	974	-
Employee contributions	52	-	15	-
Benefits paid	(7,201)	-	(7,622)	-
Impact of change in foreign exchange rates	(5,890)	-	2,237	-
Fair value of plan assets, end of year	225,768	-	229,489	-
<b>Funded status:</b>				
Funded status – plan surplus (deficit)	66,950	(17,714)	64,045	(21,881)
Unamortized net actuarial gains/(losses)	(23,851)	(6,408)	(19,584)	(5,934)
Unamortized past service costs	-	-	-	(104)
Unamortized transitional obligation	(30,516)	496	(33,047)	545
Accrued benefit asset (liability)	12,583	(23,626)	11,414	(27,374)

The net accrued benefit liability of \$11,043 (2006 – \$15,960) has been recorded on the consolidated balance sheets in other liabilities.

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

## 10. Employee benefit plans (continued)

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

	2007		2006	
	Pension benefits \$	Other benefits \$	Pension benefits \$	Other benefits \$
Accrued benefit obligation	(25,716)	(17,714)	(29,986)	(21,881)
Fair value of plan assets	14,500	-	17,134	-
Funded status – plan deficit	(11,216)	(17,714)	(12,852)	(21,881)

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

	2007		2006	
	Pension Benefits \$	Other Benefits \$	Pension Benefits \$	Other Benefits \$
Defined benefit	704	904	974	961
Defined contribution	1,575	-	1,365	-
Total	2,279	904	2,339	961

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

	2007		2006	
	Pension Benefits %	Other Benefits %	Pension Benefits %	Other Benefits %
Stocks	41	-	46	-
Fixed income securities	58	-	54	-
Other	1	-	-	-
Total	100	-	100	-

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

## 10. Employee benefit plans (continued)

Foresters net defined benefit plan expense is as follows:

	2007		2006	
	Pension benefits \$	Other benefits \$	Pension benefits \$	Other benefits \$
<b>Actual costs arising in the period</b>				
Service cost (employer portion)	5,446	302	6,844	946
Interest cost	8,355	827	8,227	939
Actual return on plan assets	(8,615)	-	(20,483)	-
Actuarial (gains) losses	(10,515)	(1,756)	(5,079)	(1,877)
<b>Pension costs incurred before adjustment</b>	<b>(5,329)</b>	<b>(627)</b>	<b>(10,491)</b>	<b>8</b>
<b>Differences between costs arising in the year and cost recognized in respect of:</b>				
Return on plan assets	(4,177)	-	7,069	-
Actuarial (gains) losses	9,827	1,414	5,269	1,673
Plan amendments	-	(95)	-	(107)
<b>Amortization of net transitional obligations</b>	<b>(2,263)</b>	<b>50</b>	<b>(2,275)</b>	<b>50</b>
<b>Net benefit plan (income) expense</b>	<b>(1,942)</b>	<b>742</b>	<b>(428)</b>	<b>1,624</b>

The defined contribution plan expense for 2007 as \$1,575 (2006- \$1,365).

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

	2007		2006	
	Pension benefits	Other benefits	Pension benefits	Other Benefits
<b>Assumptions used to calculate benefit expense</b>				
Discount rate	5.2%	5.7%	5.0%	5.5%
Expected long-term rate of return on plan	5.7%	-	6.4%	-
Rate of compensation increase	3.7%	-	4.0%	-
<b>Assumptions used to calculate benefit obligations</b>				
Discount rate	5.6%	5.7%	5.2%	5.7%
Rate of compensation increase	3.7%	-	3.7%	-

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

---

## 10. Employee benefit plans (continued)

The healthcare cost inflation assumption for Canadian benefits is 7.0% per year, (2006 – 5.9% per year), decreasing to 4.8% in 2014 and thereafter. The post medicare inflation assumption for the United States benefits is 9.4% for 2007 (2006 – 10.3%) 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 2007	95	(80)
Effect on accrued benefit obligation as at December 31, 2007	1,462	(1,232)

## 11. Segmented information

Foresters manages its business and distributes its general fund insurance and annuity products and its and segregated fund products through operating segments in the United States, Canada and the United Kingdom. Each operating segment includes both insurance and fraternal operations which work together to develop and distribute products in the local markets. 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 2).

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

## 11. Segmented information (continued)

	2007					2006				
	United States \$	Canada \$	United Kingdom \$	Corporate \$	Total \$	United States \$	Canada \$	United Kingdom \$	Corporate \$	Total \$
<b>Revenue</b>										
Premiums										
Insurance	140,275	25,374	159,246	-	324,895	134,187	25,747	168,353	-	328,287
Annuities	31,853	4,675	21,456	-	57,984	119,336	8,036	20,944	-	148,316
Net investment income	175,575	16,545	50,895	135,362	378,377	164,914	41,064	71,710	103,145	380,833
Other income	8,110	2,837	534	5,425	16,906	15,030	3,861	1,338	162	20,391
	<u>355,813</u>	<u>49,431</u>	<u>232,131</u>	<u>140,787</u>	<u>778,162</u>	<u>433,467</u>	<u>78,708</u>	<u>262,345</u>	<u>103,307</u>	<u>877,827</u>
<b>Certificateholder benefits and expenses</b>										
Certificateholder benefits	209,628	38,665	93,158	-	341,451	301,235	41,668	77,173	-	420,076
Changes in actuarial liabilities	(8,169)	(34,051)	90,644	-	48,424	26,770	(3,309)	128,460	-	151,921
Dividends to members	25,953	7,660	6,643	-	40,256	27,184	7,542	7,027	-	41,753
Agent compensation	35,688	3,122	14,761	1,936	55,507	39,501	3,710	13,340	-	56,551
Operating expenses	77,600	20,578	14,935	17,380	130,493	105,328	21,565	16,521	5,650	149,064
Fraternal investment	10,355	5,199	1,848	-	17,402	10,827	4,506	1,866	-	17,199
	<u>351,055</u>	<u>41,173</u>	<u>221,989</u>	<u>19,316</u>	<u>633,533</u>	<u>510,845</u>	<u>75,682</u>	<u>244,387</u>	<u>5,650</u>	<u>836,564</u>
<b>Net income (loss) before income taxes</b>	4,758	8,258	10,142	121,471	144,629	(77,378)	3,026	17,958	97,657	41,263
Income taxes	-	-	881	4,913	5,794	15	9	6,316	1,690	8,030
<b>Net income (loss)</b>	<u>4,758</u>	<u>8,258</u>	<u>9,261</u>	<u>116,558</u>	<u>138,835</u>	<u>(77,393)</u>	<u>3,017</u>	<u>11,642</u>	<u>95,967</u>	<u>33,233</u>
<b>Other comprehensive income (loss)</b>	-	-	-	(295,485)	(295,485)	-	-	-	-	-
<b>Total comprehensive income (loss)</b>	<u>4,758</u>	<u>8,258</u>	<u>9,261</u>	<u>(178,927)</u>	<u>(156,650)</u>	<u>(77,393)</u>	<u>3,017</u>	<u>11,642</u>	<u>95,967</u>	<u>33,233</u>

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

---

## 12. Non-Controlling Interest in Subsidiaries

On January 2, 2007, Foresters acquired a controlling interest in Foresters Financial Partners Holdings, Inc., a Delaware corporation (FFPH). Foresters purchased 250,000 voting common shares and 1 million voting preferred shares of FFPH. The Managing Partners of Foresters Financial Partners, Inc., a Delaware corporation (FFP) purchased, in aggregate, 250,000 voting common shares of FFPH. 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.

The Managing Partners share of FFPH is included in general expenses on the consolidated statement of income and as a component of other liabilities on the consolidated balance sheet in 2007.

## 13. 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 in actuarial liabilities and Foresters does not believe that it will incur any significant additional loss or expense in connection with such actions.

## 14. Subsequent events

Foresters entered into an agreement with Unity Life of Canada ("Unity") in 2007 under which Foresters will acquire Unity, and Unity will represent Foresters in the Canadian market. Under the agreement, which is subject to approval by regulatory authorities and Unity's eligible voting policyholders, Foresters will sponsor the demutualization of Unity. Following demutualization, Foresters will acquire 100% of the common shares of Unity for approximately \$50 million.

This transaction is expected to be completed in 2008, if approved, and will be accounted for using the purchase method. Unity's results of operations will be included in Foresters consolidated statements of income and comprehensive income from the date of acquisition. This acquisition is expected to increase Foresters total general fund assets by approximately \$562 million. Premiums are expected to increase by approximately \$86 million. Because of the complex nature of this transaction, these amounts have been estimated and are subject to adjustments, once the closing balances have been finalized.

# THE INDEPENDENT ORDER OF FORESTERS

Notes to Consolidated Financial Statements

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

---

## 14. Subsequent events (continued)

On January 2, 2008, our U.K. subsidiary has completed the sale of its healthcare insurance subsidiary Forester Health Ltd. Included in the 2007 consolidated financial statements were net assets of \$8.3 million, premium income of \$13.6 million and net income of \$2.4 million relating to the operation of this subsidiary.

Foresters has also entered into an agreement to sell all the assets under management in its Canadian subsidiary, Foresters Securities (Canada) Inc ("FSCI"). The sale is anticipated to close on March 31, 2008 at which time FSCI will withdraw from the mutual fund business in Canada.