

2007 Financial Highlights

The Independent Order
of Foresters

Year ended
December 31, 2007

2007: Foresters breakthrough year

During the past 12 months, Foresters demonstrated its promise and potential by achieving record sales and strong community impact, while building a solid base for the future.



Business Overview

Foresters financial performance during the past year was highly positive throughout its operations.

In North America, Foresters life sales totaling \$38 million were three times higher than in 2006, while life and investment sales in the United Kingdom increased by 11%.

These impressive increases were a result of innovative product development and marketing, continued expansion of the North American distribution network and a highly focused marketing approach in the U.K.

Other key financial highlights for the year included:

- Net income of \$139 million;
- Net investment income of \$378 million;
- Total assets of \$5.4 billion, reflecting the impact of currency exchange rate fluctuations;
- Total Foresters surplus of \$1.4 billion;
- Continued strong solvency ratios in each of our three member countries; and
- Confirmation of Foresters A.M. Best rating of "A" (Excellent)¹.

During the past year, Foresters paid or credited \$341 million in certificateholder benefits to its members. This total included \$107 million in death claims, \$210 million in surrenders and annuity payments, \$20 million in funds transferred to new annuity products and \$4 million in member benefits, including scholarships and senior member, young family and other benefits. Over and above these benefits, Foresters paid or credited \$40 million in dividends to its members.

Significantly, Foresters operating expenses decreased by \$18 million from 2006 levels, despite significant investment in the acquisition of new business and related information technology and service delivery system costs.

Organizational Developments

The past year was highlighted by several important organizational developments that will further enhance Foresters promise and potential, including:

- Foresters agreement with Unity Life of Canada under which Foresters will acquire Unity Life and Unity Life will represent Foresters in the Canadian market. Unity Life is a Canadian mutual life insurance company with \$13.8 billion of life insurance in force. Unity Life operates nationally and has strong marketing, product development and distribution capabilities and an exceptional track record of growth. When completed, the transaction will provide Foresters with a strong base for growth and success in the Canadian market;

- The transition of Foresters career sales force in the United States to independent status with the launch, on January 1, 2007, of Foresters Financial Partners (FFP); and
- The successful divestiture of Forester Health, Foresters U.K. health business, which allows our U.K. operation to focus on its important life and investment business.

Community Impact

In 2007, Foresters continued its tradition of supporting families and their communities in a wide variety of ways. For example:

- Foresters made direct investments in national and local community partnerships, branch funding and scholarships worldwide totaling \$17 million;
- Under Foresters Member Enrichment Program, enhanced insurance benefits worth \$21 million were provided to long-standing Foresters members;
- Foresters members and employees worldwide volunteered 950,000 hours of their personal time, assisting more than 400 local charities and impacting the lives and well-being of millions of children and their families;
- Critical disaster relief support was provided to Foresters members affected by record flooding in the U.K. and the Pacific Northwest region of the U.S., and by the devastating California wildfires;
- As the founding sponsor and international underwriting sponsor of Children's Miracle Network Radiothon, Foresters helped

raise U.S. \$52 million for participating children's hospitals across North America in 2007. Over the past 18 years, Foresters has helped to raise more than U.S. \$275 million for this worthwhile cause; and

- In the U.K., Foresters raised a total of \$1 million for nearly 100 charitable organizations, including the Association of Children's Hospices and CLIC Sargent.

We also are proud that, during the past year, Foresters became the founding sponsor of the Children's Miracle Network in the U.K. and will sponsor the Radiothon and "Champions" programs there.

Looking Ahead

Foresters strong financial position and conservative investment policies, along with last year's important organizational developments and our impact in the community, position us well to deliver on the promise and potential of both our organization and our members.

I would like to acknowledge and thank our members, employees and distributors for the important contributions they have made to Foresters success in 2007. We look forward with excitement and optimism to the year ahead.

George Mohacsi
President and CEO

Management's Discussion and Analysis

Financial Highlights for the year ended December 31, 2007

All amounts are shown in millions of Canadian dollars unless otherwise stated.

Management's Discussion and Analysis provides an opportunity to review and highlight operational activities, financial performance and the surplus position of Foresters for the period ended December 31, 2007.

Highlights

Strategic plans established

- U.S. field force transitioned to an independent model
- Unity Life of Canada sponsored demutualization launched
- Continued success with the U.K.'s stakeholder products

Positive results achieved

- 9% return on surplus
- Rated "A" (Excellent) by A.M. Best for the 8th consecutive year¹
- U.S. term life sales increased 389%
- U.K. year on year sales growth
- Provided \$21 million under the Member Enrichment Program to be implemented in 2008 or 2009

Overall growth in certificate count

- Certificate count increased 5% in both the U.S. and U.K.

¹See reference on page 11.

General

A substantial portion of Foresters business is carried out in the U.S. and the continued strengthening of the Canadian dollar relative to the U.S. dollar impacts its Canadian dollar results. Total assets of \$5.4 billion would have been \$807 million or 15% higher if the Canadian dollar had not strengthened in 2007. In original currency, total assets in all three countries increased in 2007.

Analysis of Income

While the strong performance of Foresters world surplus investments continues to have the largest impact on the bottom line, it is important to note that its insurance operations also contributed positively to the bottom line for the first time in several years.

Net Income (\$ millions)	2007		2006	
United States *	27	20%	(52)	(157%)
United Kingdom *	15	11%	13	39%
Canada *	6	4%	4	12%
	48	35%	(35)	(106%)
World Surplus	91	65%	68	206%
Total	139	100%	33	100%

* includes insurance and fraternal operations and surplus in each country

Net income for the year ended December 31, 2007 was \$139 million, \$106 million higher than in 2006. The main drivers of this increase were:

- \$44 million higher releases of actuarial liabilities related to refinements of actuarial assumptions, methods and models,
- \$32 million higher net gains on invested assets, \$22 million of which resulted from the change in accounting for investment gains and losses on assets backing surplus,
- \$28 million lower operating expenses in 2007 primarily due to the move from a captive U.S. field force to a fully independent model and

- \$2 million largely due to lower agent compensation and other smaller items.

Total life and annuity premiums of \$383 million were \$94 million, or 20% lower than in 2006. This significant decrease was mainly attributable to:

- lower U.S. annuity sales of \$87 million,
 - \$61 million of this reduction was due to the reduction in the level of replacements of Foresters older U.S. annuity products with better-designed annuity products.
- lower sales of Child Trust Fund Revenue Allocated Accounts ("CTF"), and
 - In 2006, the U.K. government awarded CTFs to eligible children in the U.K. dating back to September 2002 resulting in \$19 million higher premiums in 2006.
- smaller reductions in Canadian annuity premiums, U.K. ring-fenced premiums, and U.K. health premiums contributed another \$15 million to the overall decline in premiums.

These declines were partially offset by:

- improved first year life premiums of \$11 million, mainly on term products in the U.S. and
- higher renewals of Savings Plans in the U.K. of \$16 million.

Investment income of \$378 million was down 3% from 2006 levels.

- Investment income on assets backing actuarial liabilities, which is largely offset against the change in actuarial liabilities, was \$45 million lower than in 2006 as the positive impact of unrealized gains from the foreign exchange forward contracts were more than offset by the decline in U.S. bond and equity markets.

- Investment income on assets backing surplus, which falls directly to the bottom line, was \$32 million higher than the prior year mainly due to realized gains on the sale of equities.

Foresters did not sustain any investment credit losses.

Certificateholder benefits, at \$341 million, decreased 19% or \$79 million over 2006 primarily due to:

- a higher level of replacement of old annuity products in 2006 as previously mentioned accounted for \$61 million of the difference,
- lower death claims and surrenders of U.S. and Canadian life and annuity products contributed another \$33 million to this reduction.

These reductions were offset by a \$15 million increase in certificateholder benefits, which related largely to an increase in U.K. unit linked surrenders.

Fraternal 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 2007, which is consistent with the prior year.

In-force Certificate Counts

The number of certificates in-force worldwide increased year-over-year for the first time in many years.

Year-to-date total certificate statistics were as follows:

Certificate Count	2007	2006	% Increase (Decrease)
United States	326,494	310,275	5%
United Kingdom	204,337	193,713	5%
Canada	79,949	83,582	(4%)
Total	610,780	587,570	4%

Despite growth in certificate count, the number of voting members decreased from 753,000 at the end of 2006 to 739,000 in 2007. This reduction resulted from deaths, maturities and surrenders and the fact that the U.K. CTF certificateholders (now over 50,000) become voting members only when they reach the age of 16.

Worldwide total insurance in-force continued to grow in 2007, increasing from \$20.0 billion at December 31, 2006 to \$20.6 billion at December 31, 2007.

Surplus

Surplus (\$ millions)	Retained earnings	Accumulated comprehensive income	Total surplus
Balance as at Dec. 31, 2006	1,196	-	1,196
Change in accounting policy	224	152	376
Net income	139	-	139
Other comprehensive income	-	(295)	(295)
Balance as at Dec. 31, 2007	1,559	(143)	1,416

The total \$1.4 billion of reported surplus includes amounts attributed to corporate surplus within each country and World Surplus. Foresters uses the Canadian solvency requirement, the Minimum Continuing Capital and Surplus Requirement (MCCSR), specified by the Office of the Superintendent of Financial Institutions Canada to allocate surplus across its operating segments in each country up to a 250% MCCSR level. The threshold of 250% MCCSR is not a regulatory requirement but a management allocation of surplus which allows each country segment sufficient assets to manage its operations. Foresters World Surplus account represents the excess surplus over a 250% MCCSR level and is supported by \$706 million of invested assets. Investment income on these assets provides Foresters with the income and cash flow to fund its insurance and fraternal operations.

Surplus increased \$220 million over the prior year.

- The increase in retained earnings was a result of the change in accounting standards and net income for the past 12 months.
- Accumulated comprehensive income of \$152 million was set up on January 1, 2007 as a result of the change in accounting standards and the reduction in this balance during the year related to:
 - \$222 million of unrealized foreign currency translation losses as a result of the strengthening of the Canadian dollar,
 - \$37 million of unrealized losses on securities classified as available for sale and
 - \$36 million on the reversal of previously recognized gains on the sale of securities classified as available for sale.

Return on equity of 9% for the period ended December 31, 2007 was 6% better than the same period last year.

New accounting standards adopted in 2007

Effective January 1, 2007, Foresters adopted the following new Canadian accounting standards, Financial Instruments – Recognition and Measurement and Comprehensive Income. The changes related to these new standards resulted in:

- an increase to opening retained earnings of \$224 million mostly related to net after-tax deferred gains on assets backing surplus funds
- an increase in opening accumulated other comprehensive income of \$152 million
 - \$123 million relating to net after-tax unrealized gains on assets supporting surplus funds and
 - \$29 million representing the currency translation account.

These changes have been applied on a prospective basis and prior year results have not been restated in accordance with these new standards.

As prior year figures have not been restated, comparability of net investment income figures is complicated. Under the new standards, unrealized gains and losses on assets supporting surplus funds are not recognized in net income until they are realized on the sale of such assets, whereas all other unrealized gains and losses and all realized gains and losses are recognized in income immediately. In the prior year all realized and unrealized gains and losses were amortized to income over a period of years.

Board of Directors

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Executive Leadership Team

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Senior Vice President Human Resources & Employee Communications

Christopher H. Pinkerton
*President, U.S. Division**

Anthony W. Poole
*President, Canada Division***

** Title change as of February 2008.*

*** Unity Life of Canada acquired on April 2, 2008.*

Solvency

Financial strength is critical to generating new business, maintaining and expanding distribution networks and providing a base for future expansion and growth. 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.

Solvency	December 2007	December 2006
Canada – MCCR	406%	391%
United States – RBC Branch	405%	425%
United States – RBC Trusteed	287%	284%
United Kingdom – Free Asset Ratio	15%	16%

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

Performance by Business Segment

United States

Foresters U.S. operations accounted for 45% of total worldwide premiums in 2007 compared to 53% in 2006.

Major Proprietary Products

Protection	Investment	Member Benefits
Whole Life	Deferred Annuity	Competitive and Orphan Scholarships
Universal Life	Immediate Annuity	Young Family Member Benefit
Term Life	Equity Indexed Annuity	Terminal Illness Benefit
		Critical Illness Benefit
		Benevolence

Term life sales were 389% higher than the same period last year, while whole life sales and universal life sales were worse than the same period last year by 78% and 19% respectively.

Highlighting 2007 was the implementation of a significant alteration in the distribution model whereby Foresters captive career field force was transitioned into an independent model through its U.S. general agent Foresters Financial Partners, Inc. At the same time Foresters continued to grow its relationship with several independent marketing organizations. 92% of sales came from Foresters relationship with these independent marketing organizations and the other 8% came from its U.S. general agent.

United Kingdom

Foresters U.K. operations contributed 47% of total premiums written in 2007, compared to 40% in 2006.

Major Proprietary Products

Protection	Investment and Savings	Member Benefits
Lifestyle Protection Plan (Life Cover, Critical Illness and Income Protection)	Individual Savings Accounts	University Scholarships
Mortgage Protection Options (Life Cover and Critical Illness)	Child Trust Fund	Orphan Benefit and Scholarships*
	Savings and Investment Plan	Terminal Illness Benefit*
	Deferred Annuity	Benevolence

** Only available in pre-1995 plans*

During the 12 months ended December 2007, new business issued was \$116 million, comprising \$90 million in single and \$26 million in regular premiums. Strong sales of single premium savings products, including savings, annuities and CTFs, continue to contribute significantly to insurance premiums, while regular premium savings sales increased by 17% over 2006.

Canada

Foresters Canadian operations accounted for 8% of total premiums in 2007 (7% in 2006) and represents Foresters smallest business segment.

Major Proprietary Products

Protection	Investment	Member Benefits
Whole Life	Guaranteed Investment	Competitive and Orphan
Universal Life	Certificates	Scholarships
Term Life	Immediate Annuity	Young Family Member Benefit
	Segregated Funds	Terminal Illness Benefit
		Critical Illness Benefit
		Benevolence

Sales were down compared to the same period last year: term life sales declined by 46%, universal life sales declined by 41% and investment deposits (excluding segregated funds) were down 37% due to a reduction in the number of captive agents. Contributions into Foresters Canadian segregated funds were also 12% lower compared to last year.

In 2007, Foresters adopted a new Canadian strategy focused on improving sales volumes and expanding its distribution network across Canada. This strategy will be achieved through Foresters agreement to acquire Unity Life of Canada ("Unity Life") and, following closing, having Unity Life represent Foresters in the Canadian marketplace. On February 28, 2008, Unity Life's policyholders voted in favour of the proposal to undergo a sponsored demutualization with Foresters. Under the Share Subscription and Demutualization Agreement, Foresters is sponsoring the demutualization of Unity Life and will subscribe for 100% of Unity Life's common shares. Unity Life's eligible par policyholders will be paid in cash from the purchase price paid by Foresters. Subject to approval by Canadian regulatory authorities, Unity Life will become a wholly owned subsidiary of Foresters. The transaction will be completed in April 2008.

Future Outlook

While 2007 was a breakthrough year for Foresters, 2008 will see the company building on its success.

In the U.S., management continues to focus on an aggressive product development program and the growth of its distribution networks.

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

Management is confident that the acquisition of Unity Life will enable Foresters to achieve its strategic goals of growing its Canadian business, improving the financial results of its Canadian Division and increasing its membership base in Canada.

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

Foresters rated "A" (Excellent) by 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.

Summarized Consolidated Balance Sheets

As at December 31, 2007, with comparative figures for 2006 (In millions of Canadian dollars)

	2007	2006
Assets		
Investments		
Cash and short-term securities	\$ 82	\$ 78
Bonds and other fixed-term securities	3,641	4,014
Mortgages	30	50
Stocks	1,216	1,281
Real estate	19	17
Loans to certificate holders	171	197
Other invested assets	148	20
	<u>5,307</u>	<u>5,657</u>
Other assets	82	100
Total assets	<u>\$ 5,389</u>	<u>\$ 5,757</u>
Liabilities and Surplus		
Actuarial liabilities	\$ 3,807	\$ 3,860
Other insurance certificate and contract liabilities	87	97
Other liabilities	56	67
Deferred net gains realized on disposal of investments	23	537
Total liabilities	<u>3,973</u>	<u>4,561</u>
Surplus		
Retained earnings	1,559	1,167
Accumulated other comprehensive income (loss)	(143)	29
Total surplus	<u>1,416</u>	<u>1,196</u>
Total liabilities and surplus	<u>\$ 5,389</u>	<u>\$ 5,757</u>

Canadian dollar strengthened in 2007

	2007	2006	%
U.S. dollar rate:			
Year-end rate – balance sheet	0.9913	1.1654	(15%)
Average rate – income statement	1.0748	1.1344	(5%)
U.K. pound rate:			
Year-end rate – balance sheet	1.9653	2.2824	(14%)
Average rate – income statement	2.1487	2.0898	3%

- Total assets would have been \$807 million higher if the Canadian dollar had not strengthened in 2007.

Summarized Consolidated Statements of Income

For the year ended December 31, 2007, with comparative figures for 2006 (In millions of Canadian dollars)

	2007	2006
Revenue		
Premiums	\$ 383	\$ 477
Net investment income	378	391
Other income	17	20
	<u>778</u>	<u>888</u>
Certificateholder benefits and expenses		
Certificateholder benefits	341	420
Change in actuarial liabilities	48	152
Dividends to members	40	42
Agent compensation	56	57
Operating expenses	131	159
Fraternal investment	17	17
	<u>633</u>	<u>847</u>
Income before income taxes	145	41
Income taxes	6	8
Net Income	<u>\$ 139</u>	<u>\$ 33</u>

The Summarized Consolidated Balance Sheets and Summarized Consolidated Statements of Income have been derived from Foresters Consolidated Financial Statements, which are prepared in accordance with Canadian generally accepted accounting principles and are 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, 2007 and for the year then ended on which we expressed an opinion without reservation in our report dated February 11, 2008. 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,
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 policy liabilities in the consolidated balance sheets of The Independent Order of Foresters as at December 31, 2007 and 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 11, 2008.

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 11, 2008



Canada
Foresters™
Foresters House
789 Don Mills Road
Toronto, Ontario, Canada M3C 1T9
Phone: 416 429 3000
Fax: 416 429 3896
Toll Free: 1 800 828 1540 (CAN/US)
Web: www.foresters.com

United States
Mailing Address:
P.O. Box 179
Buffalo, New York, USA 14201-0179

United Kingdom
Foresters
Foresters House
Cromwell Avenue
Bromley, Kent, England BR2 9BF
Phone: 020 8628 3400
Fax: 020 8628 3500
Local Rate: 08457 990011
Web: www.foresters.co.uk

Principal Subsidiaries
United States
Foresters Equity Services, Inc.
6640 Lusk Blvd. Ste A-202
San Diego, California USA 92121
Phone: 858 550 4844
Fax: 858 550 2056
Web: www.forestersequity.com

Foresters Financial
Partners Holdings Inc. ("FFPH")
(with its subsidiary Foresters Financial
Partners, Inc. ("FFP"))
28005 North Smyth Drive, Ste 103
Valencia, California, USA 91355
Phone: 661 295 4660
Fax: 661 295 4661
Web: www.forestersfp.com

Canada
Foresters Securities (Canada) Inc.
(Note: Assets to be sold on May 20, 2008)

United Kingdom
Forester Health Ltd.
(Note: Forester Health was sold on January 2, 2008)
Forester Life Ltd.
Web: www.foresters.co.uk

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

The 2007 financial statements of Foresters, which are summarized in this report, can be obtained by writing to:

Lynn Haight
Chief Financial Officer
& Chief Membership Officer
Foresters
Foresters House
789 Don Mills Road
Toronto, Ontario
Canada
M3C 1T9
E-mail: lhaight@foresters.com